

NEWS SUMMARY

GENERAL

Zambia arrests: plot rumours

The Zambian authorities have arrested at least 12 prominent citizens, including a former Cabinet Secretary, in a tough security operation.

There is speculation that the Government moved to forestall a coup attempt. No official explanation has been given for the arrests.

Home Affairs Minister Wilfred Philo said "mopping-up operations were continuing. Back Page

Nuclear protest

About 50,000 demonstrators marched through London on a nuclear disarmament rally.

Hostages debate

Iran's Parliament adjourned without deciding the fate of the U.S. hostages. A debate on the issue is expected to resume today. Back Page

Missile attack

More than 100 people were killed when Iraq fired Soviet-made missiles at residential areas of Dezful, Iran. Iraq war U.S. not to arm Iran. Page 2

Refugees killed

Soviet-built helicopter gunships killed three Afghan refugees and wounded seven in attacks on two refugee camps in Pakistan on Friday, said UN officials.

Union ignored

Two Cunard passenger ships—the QE2 and Queen Elizabeth—sailed on schedule at the weekend despite "trade union pressure to delay them. Page 4

Prison row

Prison officers at Camp Hill jail on the Isle of Wight may take legal action against their governor who has threatened to discipline them unless they start supervising working parties and workshops.

Board watchers

Civil servants will seek to increase their knowledge of business affairs by attending board meetings of three major companies' subsidiaries. Back Page 9

Los Rodeos move

Los Rodeos airport on Tenerife, scene of the world's worst air disaster three years ago, will be closed to international passenger traffic from November 1. Flights will use the island's new Queen Sofia airport.

Blasts in Israel

Palestinian commandos claimed responsibility for two bomb attacks in Israel. At least 16 people were injured.

Scott expedition

British mountaineer Doug Scott has led a group of West European climbers to the top of 25,060-foot Makalu-II in the Himalayas.

Slippery silver

A \$660,000 silver sludge shipment was stolen in July while in transit from Britain to a U.S. photographic company, said the Federal Bureau of Investigation.

Briefly...

Major changes in the home improvement grant system take effect from today. Page 4

Basque separatists released an industrialist they kidnapped last week.

Israeli President Navon arrived in Egypt for a state visit. Page 2

CONTENTS

Monetary policy: Sir Geoffrey in the hot seat 12

Europe's airlines: facing a Laker time bomb 13

Management: civil servants move into industry 7

Lombard: Samuel Brittan on patriotic spending 10

Justinian: why the customer is often wrong 10

Editorial comment: public spending; Russia 12

Technology: turning industrial effluent to gold 9

Surveys: Northampton 17-19

West Germany Insert

11 Management 12 World Stock Mkt. 15

12 Money & Markets 13 World Trade 16

13 Money & Markets 14 OTCs News 17

14 Money & Markets 15 OTCs News 18

15 Money & Markets 16 OTCs News 19

16 Money & Markets 17 OTCs News 20

17 Money & Markets 18 OTCs News 21

18 Money & Markets 19 OTCs News 22

19 Money & Markets 20 OTCs News 23

20 Money & Markets 21 OTCs News 24

21 Money & Markets 22 OTCs News 25

22 Money & Markets 23 OTCs News 26

23 Money & Markets 24 OTCs News 27

24 Money & Markets 25 OTCs News 28

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26 Money & Markets 27 OTCs News 30

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28 Money & Markets 29 OTCs News 32

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33 Money & Markets 34 OTCs News 37

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36 Money & Markets 37 OTCs News 40

37 Money & Markets 38 OTCs News 41

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474 Money & Markets 475 OTCs News 478

475 Money & Markets 476 OTCs News 479

476 Money & Markets 477 OTCs News 480

477 Money & Markets 478 OTCs News 481

478 Money & Markets 479 OTCs News 482

479 Money & Markets 480 OTCs News 483

OVERSEAS NEWS

Mitterrand silent on nomination

By David White in Paris

M. FRANCOIS MITTERRAND, the French Socialist leader, has once more put off committing himself on whether to seek the Party's nomination for next year's Presidential election.

He was to have announced his decision in Marseilles yesterday, a week after a challenger, M. Michel Rocard, backed by the party's right wing, declared publicly that he would run. But M. Mitterrand said instead he would wait until the party's management committee met to discuss candidacies on November 8. Members are due to choose a candidate on January 25, barely 13 weeks before the official campaigning fortnight.

For M. Mitterrand, who was 64 yesterday, next year would probably be his last chance of trying for the presidency, which he ran for in 1965 and in 1974.

A third leading figure, M. Jean-Pierre Chevènement, head of the left-wing CERES faction which represents about a quarter of the Party, has said he will run if M. Mitterrand drops out.

In the Gaullist RPR party, the situation is also becoming complex. While party leader M. Jacques Chirac has strongly hinted he will be running, he faces a fresh challenge in the form of M. Marie-France Daurand, 46, a former adviser to President Pompidou.

Another former adviser to M. Chirac, M. Yves Guena, who quit his post in March last year, has joined a list of 150 personalities supporting the former Gaullist Prime Minister, M. Michel Debré, who is running as an independent.

Abortion row casts shadow over Forlani

BY RUPERT CORNWELL IN ROME

A ROW between the two major coalition partners over abortion has cast a shadow over the prospects of the Italian Government of Sig. Arnaldo Forlani, during the debate intended to sanction its approval by Parliament.

The four-Party Administration of Christian Democrats, Socialists, Social Democrats and Republicans won a confidence vote by 362 to 250, helped by the abstention of nine Liberal Party deputies.

The occasion was marred by bitter exchanges on abortion by the Christian Democrats and Socialists, which might have repercussions on the survival of the Government if, as seems likely, separate national referenda are held next spring either to repeal or to strengthen the country's existing abortion law.

Repeal is backed by Italian Catholics and the Christian Democrats, while proposals to keep the present legislation are supported by the Socialists and other "lay" parties.

The speech of Sig. Bettino Craxi, the Socialist leader, during the debate this weekend, surprised observers. He launched an attack on the church for its "outdated fanaticism" in encouraging the referendum to abolish the law permitting abortion, and thus interfering in Italian affairs.

Sig. Craxi suggested that Polish-born Pope John Paul II, who recently publicly urged Italians to "rediscover their faith and conscience" and ban abortion, was unable to grasp the realities of Italian life.

But after a hasty rebuttal by Sig. Flaminio Piccoli, the Christian Democrat leader, his remarks were condemned yesterday. The Vatican newspaper expressed its "astonishment and grief" that Sig. Craxi had spoken so disrespectfully.

His outburst is taken as further proof of his aim to establish an independent stance as possible for the Socialists.

But it also underlines how precarious in these circumstances is the alliance between Christian Democrats and Socialists.



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New cabinet formed in Lebanon

By Ihsan Hijazi in Beirut

A NEW Lebanese Cabinet has been formed to replace the caretaker government of Mr. Selem Al Hoss, the Prime Minister, which resigned in June.

The 22-member government is headed by Mr. Chafik Al Wazzan, a Muslim lawyer from Beirut, and includes parliamentarians and technocrats.

Five Ministers have been retained, including Mr. Fuad Butros, Foreign Minister, a friend and adviser to President Elias Sarkis. Several newspapers yesterday dubbed the new government that of Mr. Sarkis because several members are the President's friends.

Mr. Sarkis, the Christian Maronite head of state, has two years more to serve of his six-year term. While conditions in the country have improved considerably since his election at the end of the 1976 civil war, Lebanon remains divided on the ground, and national entente is lacking.

None of the Christian or Muslim militias is represented in the Cabinet, the majority of whose members are generally regarded as traditionalist politicians.

The main purpose of the new government will be to fill a power vacuum which existed since Dr. Hoss resigned.

The Government faced its first problem when one member, Mr. Mounir Abou Fadel, vice-speaker of Parliament, said he will not serve in the capacity for which he was chosen. He is one of five state Ministers without portfolio.

Iraq warns U.S. not to arm Iran

BY ROGER MATTHEWS IN BAGHDAD

IRAQ HAS again warned the U.S. against resuming arms shipments to Iran. Dr. Saadoun Hammadi, the Foreign Minister, said in a statement released yesterday that any country supporting Iran should not expect Iraq to stand by with arms crossed.

The statement was issued soon after Dr. Hammadi had summoned to the Foreign Ministry the heads of diplomatic missions of countries on the United Nations Security Council. Dr. Hammadi told them Iran had started the war as early as September 4, and that Iraq could not withdraw from the territory it had subsequently occupied until Tehran answered its "just demands."

As the war enters its sixth week, unofficial estimates indicate that between 1,000 and 1,500 Iraqis have been killed, with perhaps three times that number wounded. The recent increase in admitted casualties has been caused by the belated decision to complete the capture of Khorramshahr and to press on towards the oil refinery city of Abadan.

The longer the Iraqis resist a ceasefire, the more likely it is that the political leadership in Baghdad will feel it necessary also to take Dezful and Ahwaz, the two other key towns in Khuzestan province.

The cities are said to be virtually surrounded.

Dr. Hammadi, speaking to foreign diplomats, emphasised that Iraq had no ambitions towards Iranian territory, but would not accept any compromise on sovereignty over the Shatt al-Arab waterway and land which should have been returned by Iran under the 1975 Algiers agreement.

Suggestions that Iraqi forces should withdraw from the additional occupied Iranian land were impossible for two main reasons, Dr. Hammadi said. First, because previous border agreements had been abrogated and no clear boundary now existed - and second, because there were no security guarantees that Iran would not attack again.

John Wyles, adds from Brussels: European Community Foreign Ministers meeting in Luxembourg this weekend expressed concern that no end was in sight to the war, but agreed that the Community could do little to settle the conflict.

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UK NEWS

Rodgers warns of poll defeat if Foot wins

BY ELINOR GOODMAN, LOBBY CORRESPONDENT

THE FIRST real argument over policy in the Labour leadership campaign blew up last night over defence. Mr. William Rodgers, the party's defence spokesman, claimed that if Mr. Michael Foot became leader his views on unilateral disarmament could lose the party the next General Election.

The attack by Mr. Rodgers, who is on the far Right of the party, came after Mr. Foot had presented himself on television as the man most likely to bring peace to Labour and peace to the forefront of British politics. Interviewed on London Weekend Television's Weekend World programme, Mr. Foot made it clear that he retained his long-held unilateral beliefs and was opposed to the sitting of cruise missiles in the UK. He would, he said, "send the missiles back". Labour Right-wingers claimed this went far beyond agreed Shadow Cabinet policy. The interview came as the Labour leadership contest entered a key phase. As MPs

return to Westminster after the long recess, the campaign managers will be able to get a much better idea of the support for their candidates. For the first time they will be able to lobby away from the pressures of their largely Left-wing local parties.

On the basis of telephone canvassing, Mr. Healey still looks set to win, though almost certainly not in the first ballot while he begins this week.

The expectation among the campaign managers yesterday was that Mr. Foot would run Mr. Healey a good second and there would be a gap between them and other two contenders, Mr. John Silkin and Mr. Peter Shore. The contest will then go to a second ballot with Mr. Healey and Mr. Foot competing for the votes from MPs in the centre of the party who might in the first round have voted for Mr. Shore.

The two will be on show on Wednesday when they lead for the Opposition in the Employ-

ment debate.

On television yesterday Mr. Foot showed few signs of trimming his views to suit those MPs of the centre. His confidence and his positive approach may, have assuaged some of the doubts about whether he personally wanted to stand or whether he was merely press-ganged into it by the Left.

Defence has long been a divisive issue within the party. But though Mr. Foot did not actually repeat his commitment to unilateral disarmament in so many words, he did not demure when the interviewer summarised his position as being unilateralist. He did, however, stress that it would be preferable to disarm on a multi-national basis.

On the proposed change in the system of electing the Labour leader, Mr. Foot again stressed his readiness to protect the rights of MPs while repeating his belief that it should be possible to agree a workable form of electoral college.

Labour MP seeks big Civil Service reforms

By Peter Riddell, Economics Correspondent

MAJOR REFORMS in the organisation of the Civil Service and in Parliament's powers to scrutinise the executive are advocated this morning by a Labour Party Treasury spokesman who is one of the leading specialists in the Commons on public administration.

Mr. John Garrett, MP for Norwich South, calls for the reforms in a book, *Managing the Civil Service*.

His central argument is that the reforming atmosphere of the late 1980s has, withered away, notably through lack of political interest in fundamental change, and that a renewed reforming programme is needed.

Among his suggestions are resumption of progress toward a unified Civil Service grading structure, establishment of a national college of public administration, and honouring of the results of pay research.

His proposals come at a time when the structure of the Department is being examined by the Prime Minister and the Treasury and Civil Service Committee of the Commons is devoting increasing attention to the efficiency of the service.

Mr. Garrett wants, among other legislation, a freedom-of-information Act and wholesale reform of Government accounting and statistical information to allow scrutiny of purpose and results of public spending.

Managing the Civil Service, by John Garrett, Heinemann, £7.50.

Change in rate support opposed

By Maurice Samuelson

THE London Chamber of Commerce and Industry yesterday made what it called a "last ditch attempt" to prevent the Government's proposed changes in the local authority rate support system.

In a letter to Mr. Michael Heseltine, Environment Secretary, it said the Government should remove the "arbitrary and incompressible" proposal in its Local Government Bill for a new block grant system of rate support.

In terms of the Bill, Whitehall would determine more closely how much money local authorities require.

Britain comes bouncing back in the electrical appliance market

BY WILLIAM HALL

THE VALUE of imports of domestic electrical appliances dropped sharply in August while British producers increased their share of the depressed UK market significantly.

The UK market share of foreign-produced fridge freezers fell to 28.1 per cent from 70.2 per cent in August last year. Over the same period foreign penetration of the market for automatic washing machines fell from 42.8 per cent to 27.9 per cent.

In the earlier part of this year imports of domestic electrical appliances rose considerably. But since the middle of the year UK manufacturers have been recovering, according to figures released

DOMESTIC APPLIANCES IMPORT PENETRATION

	August 1979	%	August 1980	%
Fridges	47.4	29.7	40.2	25.7
Freezers	70.2	70.2	28.1	28.1
Fridge/freezers	9.8	9.8	2.7	2.7
Automatic washing machines	42.8	42.8	27.9	27.9
Vacuum cleaners	35.0	35.0	9.0	9.0
Tumble driers	9.0	9.0	9.0	9.0

Source: AMDEA

by the Association of Domestic Electrical Appliances (AMDEA).

AMDEA says the UK market fell by 2.6 per cent in value terms in August and in real terms was over a fifth lower than a year ago. However, UK

producers increased the value of their deliveries by 5.8 per cent, compared with imports, which were 22 per cent down. The market share of fridge imports fell from 47.4 per cent to 28.7 per cent in August and cooker imports fell from 9.8 per cent to 3.7 per cent.

The only sector in which import penetration grew was the small appliance market. Imports of irons, toasters and food mixers from Eastern Bloc countries in particular have increased in volume terms.

Figures for the first eight months of 1980 are still inflated by the surge in imports at the beginning of the year. UK manufacturers' trade deliveries are unchanged in value terms over the eight-month period.

Vegetables cut grocery index

BY DAVID CHURCHILL, CONSUMER AFFAIRS CORRESPONDENT

THE FINANCIAL TIMES Grocery Prices Index fell in October for the third successive month, mainly as a result of cheaper fresh fruit and vegetables. The index for October, published today, is 126.84, compared with 127.41 last month.

Fruit and vegetables was the only item to show significant change, falling from 221.19 last month to 220.06 in October.

It is now likely that the traditionally more expensive winter crops will push this section up in price next month and lead to a slight overall increase in the index.

The index, showing the trend in food prices rather than absolute price levels, is based on data collected monthly by 25 shoppers who monitor the same list of 100 items in the same shops, ranging from supermarkets to small village grocers. Food sales, which remained buoyant early in the year, were

FINANCIAL TIMES SHOPPING BASKET OCTOBER, 1980		
	Oct.	Sept.
Dairy produce	635.10	635.44
Sugar, tea, coffee and soft drinks	209.76	208.91
Bread, flour and cereals	202.19	200.19
Preserves and dry groceries	108.57	107.75
Sauces and pickles	51.64	50.29
Canned goods	190.39	189.65
Frozen foods	226.67	228.12
Meat, bacon, etc. (fresh)	521.18	531.91
Fruit and vegetables	220.06	221.19
Non-foods	238.29	235.44
Total	2,696.85	2,708.89

1979: January 108.54; February 108.65; March 109.12; April 110.88; May 113.59; June 116.02; July 114.79; August 114.16; September 114.17; October 114.95; November 116.26; December 118.74.

1980: January 120.47; February 122.32; March 124.18; April 125.94; May 128.79; June 128.53; July 129.04; August 128.41; September 127.41; October 126.84.

substantially down in summer. But after extensive marketing campaigns launched a month ago food sales appear to have picked up, according to trade sources. This is still to be confirmed by official figures.

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Co-op boards accept merger details

BY OUR CONSUMER AFFAIRS CORRESPONDENT

DETAILS OF the proposed merger between the two largest retail co-operative societies—the London Society and Co-op Retail Services—have been agreed by the boards.

The proposals will now be put to special meetings of the London Society, to be held over the next two months.

The merger was first sought last month by the London Society as a means of improving its trading performance in the competitive conditions in Britain's High Streets. CRS

traditionally takes over retail societies in financial difficulties. The merger would create a trading group with annual sales of over £800m.

The Hull and East Riding Society is also likely to join CRS shortly.

The proposals were a "threat to public safety" and would increase industry's transport costs, the union said last Thursday. The plans "to put lorry safety up for sale will entice fleets of travelling death-traps on to the roads of Britain," the IPCS said.

The Institution of Professional Civil Servants, whose 1,000 members in the test stations stand to lose their jobs, has already come out strongly against the Government's plan.

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Pru to start big home insurance Press campaign

By Eric Short

THE PRUDENTIAL Assurance Company is to spend £150,000 on a Press advertising campaign next month to make families more conscious of the value of their homes.

Mr. Ray Hill, deputy agency manager, considers that most families are unaware of the value of their belongings and fail to obtain proper insurance cover.

The campaign is timed for the advent of winter, when people are likely to be conscious that their homes are vulnerable to fire and adverse weather and when the dark evenings present opportunities to thieves.

The company is one of the largest UK household insurers with 3m domestic policyholders. To help them to estimate the replacement value of their possessions, the Prudential has produced a room-by-room guide.

This enables householders to arrive at a realistic sum to be insured, either on a full replacement basis or an indemnity (allowing for wear and tear) basis.

Plaid Cymru swings Left

BY ROBIN REEVES, WELSH CORRESPONDENT

MR. DAFYDD THOMAS, the young Welsh Nationalist MP for Merioneth, was elected vice-president of Plaid Cymru at the party's annual conference in Portlough over the weekend.

His victory, by a substantial majority, marks a distinct swing to the Left in Plaid Cymru. Mr. Thomas holds uncompromising Left-wing views, whereas his rival for the post, Mr. Dafydd Iwan, was more in the party's cultural nationalist tradition.

It puts Mr. Thomas in a

strong position should he wish to seek the leadership of the party in a year's time, when Mr. Gwynfor Evans, Plaid Cymru, president for the past 35 years, has said he will retire.

But Mr. Thomas yesterday disclaimed any presidential aspirations. Movements, not not leaders, were important, he said. The party's task in the coming months was to contribute towards an alliance of the Left in Wales and to fight the Government's economic policies.

U-turn on textiles urged

MR. JOHN KNOTT, the Trade Secretary, will be urged in Parliament next week to save Britain's textile industry from extinction.

Labour MPs, particularly those from the North-West, plan to demand a Government U-turn after news that another 1,200 jobs in the Lancashire textile industry are to be lost through closures at Carrington Vilella and John Bright.

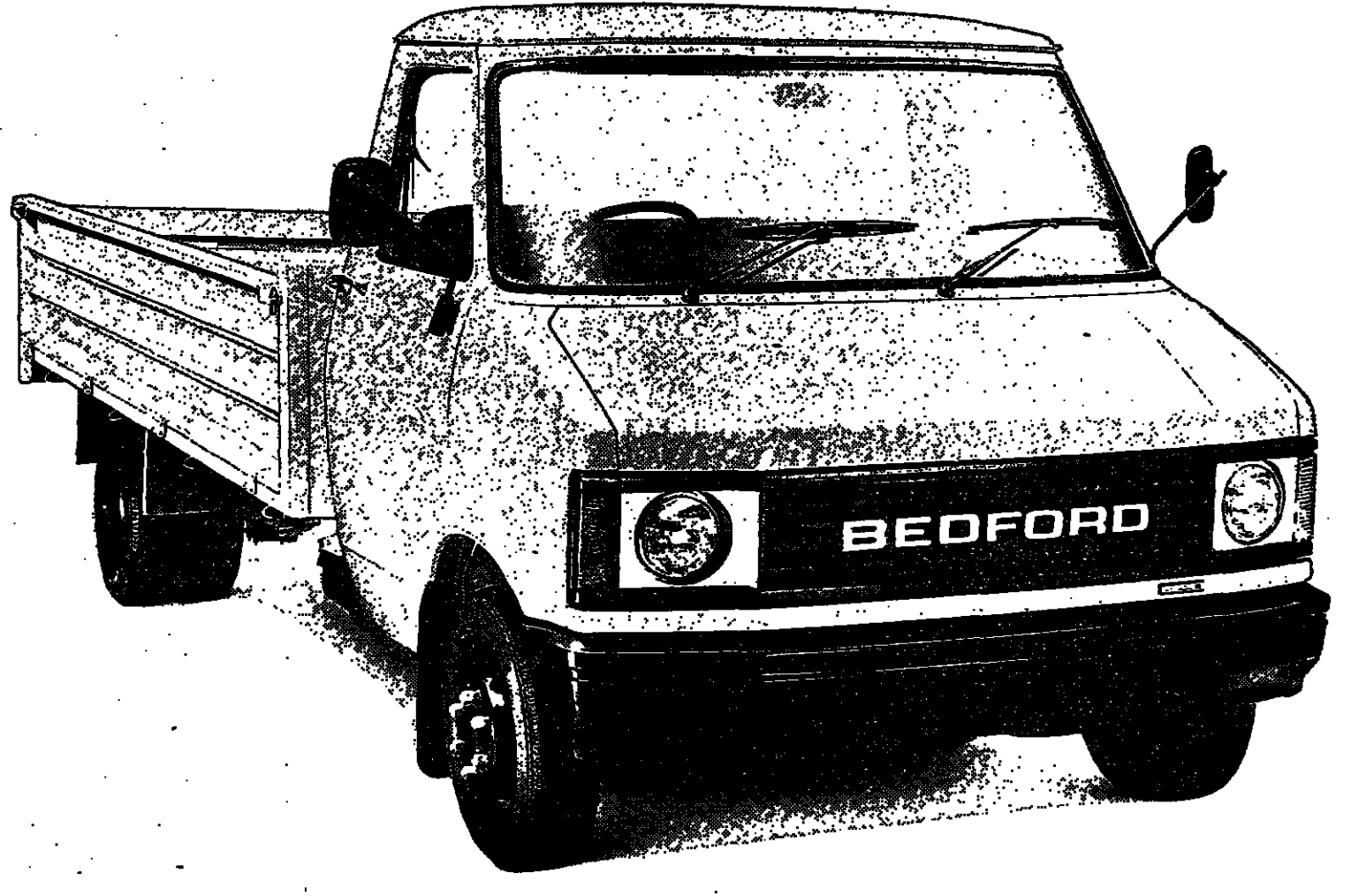
About 16,000 people have lost their jobs in this sector in the

past year, bringing the total still employed to less than 50,000.

Mr. James Callaghan, Labour MP for Middleton and Prestwich, said yesterday: "As far as I am concerned, the textile industry in my area is now completely smashed—it is non-existent."

He said the industry had been one of the least strike-prone in Britain with employees and employers trying to co-operate with both Labour and Tory governments.

NEW BEDFORD VANS & SMALL TRUCKS



DESIGNED FOR STYLE. BUILT FOR BUSINESS.

This new range of Bedford delivery vehicles is probably the most stylish on the road.

At the front, the vehicles have wider, deeper bonnets and big, sturdy, wrap-around bumpers. Van models also feature new 5-function tail lamp clusters and rear wrap-around urethane bumpers.

But it's how they deliver that really counts. And here again, they look good.

These new Bedford vans and small trucks are reliable, economical and what's more, they're very competitively priced.

Braking, roadholding and handling are excellent, even with a full load.

The new exhaust system is stronger and quieter. Closer gear ratios on some models give improved performance, and the new GM 2.3 diesel combines

power and flexibility with economy.

The latest interior is probably the best in its class, and the easily removable front end greatly improves engine access.

Naturally, the model ranges are as wide as ever, with vans and small trucks from 2.3 to 3.5 tonnes GVW, and either petrol or diesel engines with manual or automatic transmission. So you can choose

the power and payload combination that suits you best.

All in all, the new Bedford vans and small trucks could be the light commercials you're looking for.

Designed for style. Built for business.

Which is exactly what you would expect from Bedford.



BEDFORD

General Motors

Home grant rules ease today

BY MICHAEL CASSELL

MAJOR CHANGES in the system of home improvement and repair grants take effect from today.

The measures are made possible by the Housing Act 1980 and are designed to encourage the wider take-up of grants for home improvement and to simplify the existing system.

The changes have been planned for some time. Ironically, they come into operation five days after the Department of the Environment told English housing authorities not to commit themselves to new capital expenditure on housing—excluding improvement grants—because of fears that local budgets were running out of control.

As a result of the changes, a local authority will no longer be able to demand the repayment of an improvement grant if an owner-occupier sells his property within five years of obtaining the grant.

The five-year rule is being

abandoned because the Government believes its presence often deters building societies from making loans for improvement work and also penalised people who were forced to move home unexpectedly.

A local authority will now be able to give provisional approval for an improvement grant to someone who is still in the process of buying a home and who has not exchanged contracts.

This is designed to help prospective buyers to obtain a firm offer of a mortgage on a house in need of improvement when a building society wants to make a loan conditional upon improvement work being carried out.

Spending forecasts

Grants will also be available on properties occupied by members of an applicant's family, without the applicant having to be a resident of the property involved. Rateable value limits for grants in housing action areas are being abolished, and in

cases where improvements are necessary because the occupant is disabled.

The overall standard of repair required for a property after improvement with the aid of an intermediate or repair grant is being lowered—to make it easier for applicants to modernise individual amenities. It is expected that the overhauled grants system, together with the new maximum rates of grant available, will be in operation by mid-December.

In the meantime, housing authorities will this week complete their spending forecasts and are expected to submit them to the Department by Friday. Ministers will then decide, on the basis of the returns, what action to take.

Options include continuing the freeze on all new housing expenditure (except mortgage loans under the council house sales provisions of the Housing Act) to cut certain types of spending. Those authorities who exceed their budgets are

being left in no doubt that they will be penalised in the next financial year.

The freeze in spending was described as "lunacy" this week-end by the Federation of Associations of Specialists and Sub-Contractors. Mr. John Huxtable, its director, said the move was "an act of desperation" which would have a devastating effect on programming and planning but little eventual impact on expenditure levels.

Unrealistic

Local authorities found increasingly that they could not honour housing commitments except by exceeding the unrealistic spending limits demanded by the Government, he said.

The Timber Trade Federation said the freeze should be lifted until the results of the returns were known. The Government should in any case address itself to the problem of current, rather than capital expenditure, it said.

Martin Taylor explains why spot checks will stop the market scramble

Every day will be a 'make-up day' for banks

FOR THE last few months the London money markets have been operating in crazy conditions. Things have been almost as incomprehensible to the City as to outsiders who might remark from time to time that the money supply has grown by 5 per cent in a single month or that banks have paid each other 150 per cent for overnight money, and wonder why.

The recent squeeze on reserve assets—which is responsible for the silly overnight interest rates—can be traced back to the removal of Bank of England's corset controls in the summer.

Banks operating in the UK are required to match 12½ per cent of their eligible liabilities—roughly speaking, their deposits—with reserve assets, which are highly liquid instruments.

Treasury bills, Government stock with less than a year to maturity, eligible bills (as a small proportion of the total), money at call with the discount market and cash at the Bank of England all count as reserve assets.

In the past, the 12½ per cent ratio has been a prudential requirement rather than an instrument of monetary control—that is to say, the Bank of

England does not generally try to engineer a shortage of reserve assets as a way of controlling the growth of bank lending.

Most of the reserve assets are in finite supply, and banks are unwilling to put much cash in their accounts with the Bank of England, because the central bank very sensibly pays them no interest.

But it has always been easy to manufacture reserve assets through the discount market. A bank which found its loan book growing rapidly could bid for extra funds and put them on call with a discount house.

Trouble arises when the discount house does not want to take in more money, typically because it is already running as large a book as the discount market's own prudential controls, related to the house's net asset base, allow it.

The more reluctant a discount house is to take in call money—or the more desperate for reserve assets it imagines the bank in question to be—the lower the rate of interest it will offer. The reserve assets thus become expensive to the bank, and so does the increase in its lending.

This has been increasingly the case. The banking system's

eligible liabilities—and thus its need for reserve assets—have grown considerably in the past year although, when the corset controls were in place, the banks went to great lengths to suppress this growth.

Between the monthly banking make-up days for June and September—the first three months after the corset's removal—eligible liabilities rose by 12.3 per cent, equivalent to an annual rate of nearly 60 per cent.

Meanwhile, many discount houses had suffered losses as a result of rising interest rates, and had seen their asset base shrink, and with it the size of the book they were allowed to run.

The discount market was no longer in a position to produce cheap reserve assets for the banks. Worse still, the Bank of England was actually reducing the amount of Treasury bills in issue.

The more expensive reserve assets have become, the more banks have been tempted to hold just a few of them for much of the month and go up to 12½ per cent only on make-up day, the day when figures are collected by the Bank of England.

Many banks are too large to dare to do this, or too scrupulous to consider it, but it has certainly been going on. The result is chaos on make-up day as these banks have scrambled to reach the 12½ per cent ratio—and the whole market has seen them coming.

This is important because the make-up day figures are the basis for the money supply calculations, and indeed for all the Bank of England's monitoring of the banking system. The very high money rates have allowed companies to draw down their overdrafts at 17 per cent to re-lend in the open money market. This inevitably exaggerates the total bank lending figure.

What the Bank of England is doing now is to serve notice on the banking system that it expects full reserve asset cover to be maintained for the full month, and that it is prepared to make spot checks between make-up days.

At first, this may lead to upward pressure on money market rates, as every day becomes a sort of make-up day. The Bank will have to respond to this as it sees fit. At least, the figures collected should be a good deal more honest.

Closure of pulp mill gives ports extra trade

By William Hall, Shipping Correspondent

A HANDFUL of Scottish ports are facing near boom conditions as a result of the closure of the Fort William pulp mill and the start of a major export trade of British pulpwood to Scandinavia.

The closure of Fort William earlier this year has made more than 200,000 tonnes per annum of Scottish lumber available for export.

So far three ports, Grangemouth, Montrose and Invergordon, seem to be handling the bulk of the exports.

The Forestry Commission is sending most of its surplus wood to a consortium of Norwegian pulpwood importers and to Billerud Uddeholm in Sweden. The private forest growers appears to be sending much of their wood to Sodra Skogsgården of Sweden.

Last week, Grangemouth signed a contract with Sodra to ship significant tonnages of Scottish timber through the port. It is expected that close to 70,000 tonnes will be shipped to Sweden before the end of the year.

Montrose reports that its traffic is up by nearly 40 per cent as a result of its new timber trade. Up to 3,000 tonnes per week is moving through the port. It expects to export about 80,000 tonnes of round timber to Scandinavia next year.

Invergordon is expected to move at least 100,000 tonnes of timber next year.

Inverness is hoping that it will be used to export some 75,000 tonnes a year of former Fort William timber.

Orders for footwear fall by 7%

NEW ORDERS for the footwear industry fell by 7 per cent in the three months to the end of July when compared with the previous quarter, according to Government figures.

In July alone, orders were placed for 8.8m pairs of shoes, valued at \$3.3m. Deliveries in the three months ending in July were 1 per cent down on the previous three months.

Electricity savings

THE 14 operating regions of the South Eastern Electricity Board are to be reduced to 11 under organisational changes due to take effect next April. The plans are designed to save about £1m a year in operating costs.

Extended holiday

THE TOY company Combox is to lay off 250 workers at its Peterborough factory for four weeks over Christmas because of falling demands.

Crisis talks

THE UNEMPLOYMENT crisis affecting North Staffordshire pottery industry will be discussed today—between a deputation of MPs, industrialists as well as union officials, and Lord Trenchard, Minister of State at the Department of Industry. About 7,000 workers have been made redundant, and 70 per cent of the remaining 36,000 workers are on short-time.

Turner 'gift' for sale

A PAINTING by Turner which he gave to his landlady is expected to be sold for more than £200,000 at Sotheby's, London, next month. The sale also includes a Gainsborough which, according to tradition, the artist exchanged for a fine-tuned violin.

Mail director dies

SIR Geoffrey Harmsworth, a director of Daily Mail and General Trust, died on October 23. The company owns 49.95 per cent of Associated Newspapers.

Protests fail to prevent Cunard ships sailing

BY OUR SHIPPING CORRESPONDENT

TWO OF Cunard's passenger ships, the *Cunard Princess* and the *QE2*, sailed on schedule at the weekend in spite of union pressure to delay their departure in protest at the company's plans to transfer its two Caribbean cruise ships to the Bahamian flag.

Shortly afterwards, the National Union of Seamen (NUS) said the *Cunard Princess* now constituted a "maritime hazard" because the Bahamian authorities did not have effective control over ships and the crew was not properly trained.

The *Cunard Princess*, which left San Juan on Saturday at

9.30 pm local time, is already flying the Bahamian flag and employing a non-NUS crew.

Its British officers ignored their union's advice and are operating the ship normally. Its sister ship, the *Cunard Countess*, is strickenbound in Barbados, and its crew are staging a sit-in.

The *QE2*, whose officers and ship's liaison committee were earlier reported to be opposed to the NUS action, sailed from New York on Saturday at 5.0 pm local time for a Caribbean cruise.

It returns to New York on November 2 and will be back in Britain on November 8. However, according to a telex

received by the NUS from the union convenor on the *QE2*, Mr. John Miller, the majority of the *QE2* crew support the NUS stand.

The NUS plans to immobilise the ship when it docks in Southampton next month.

Last week, the NUS called for a one-day national stoppage on November 3 and a strike on *Cunard* ships in an attempt to force the company to reconsider its plans.

Under the Bahamian flag, *Cunard* will be able to employ cheaper foreign crews and stem the £20m losses which the two ships have run up over the past five years.

Stand firm on pay, says Scargill

BY OUR LABOUR EDITOR

MR. ARTHUR SCARGILL, the left-wing candidate and front-runner for the presidency of the National Union of Mineworkers, yesterday called on the union's moderate leaders to "stop compromising and apologising" and start fighting for the miners' 35 per cent wage claim.

After last week's outline offer from the National Coal Board of under 10 per cent, Mr. Joe Gormley, NUB president, said the union had to be "realistic".

He would not repeat his earlier declaration that nothing less than a rise matching the cost of living would do.

Referring to the gloomy short

term economic forecast for the coal industry given to union negotiators on Thursday, Mr. Scargill, president of the Yorkshire miners, said: "The Coal Board have told us nothing new and have merely reiterated the familiar sob story which they have been giving us for the past 10 years."

"I warn the Coal Board that we are not prepared to be fobbed off and I advise them to stop acting as agents for Tory Government policy. Failure to support in the coalfields, NUM campaign—will weaken rank-and-file support for the union's conference demand of a minimum wage of £100 a week."

This is the hope of the moderates, who think a settlement of 12 to 14 per cent would be enough to win majority support in the coalfields.

But, closure fears could also add fuel to a militant campaign against what will be interpreted as a Government-inspired pay period from January 1, is due.

Clear run for Sunday Times

By Our Labour Editor

THE Sunday Times yesterday reported a virtually trouble-free print run, one of the few this year, in the wake of last week's announcement that the title, along with *The Times* and its supplements, is up for sale.

Over 1.5m copies of the 72-page paper were produced for current circulation of 1.45m. Printing unions, who were blamed by the Thomson Organisation for its decision to sell the papers or close them by March, had predicted that industrial disruption would cease.

One of the chief trouble spots has been the press room on the long Saturday night and Sunday morning shift, mainly because of an unresolved pay differential dispute.

Petrochemical jobs 'at risk'

A PLEA to secure the future of 870 jobs at the petrochemical plant at Grangemouth, Strathgordon, has been sent to the Prime Minister by the convener of Scotland's Central Regional Council, Councillor James Anderson.

In his letter to Mrs. Thatcher, Mr. Anderson urges the Government to ensure that the gas gathering line proposed between St. Fergus and Nigg Bay is extended to take in Mossnoran, Grangemouth and Teesside.

He says the council is worried that if the gas-based petrochemical development at Nigg Bay and Peterhead is constructed, vast quantities of relatively cheap feedstock could put the British petrochemical industry at a disadvantage.

GENERALI



CONSOLIDATED BALANCE SHEET 1979

The General Council of Assicurazioni Generali, presided over by Mr. Enrico Randone, Chairman of the Company, met to approve the Group Balance Sheet for the financial year 1979 as follows:

ASSETS (in thousands of U.S.S.)	1979	1978
Building and farm property	1,979,315	1,710,289
Fixed Interest bearing securities	3,918,640	3,155,556
Shares (including Associates)	457,364	396,091
Mortgage and policy loans	396,925	341,194
Deposits with Ceding Companies	212,114	168,807
Bank Deposits	522,306	528,341
Accounts receivable and other assets	1,067,363	801,544
	\$8,554,027	\$7,101,822

LIABILITIES (in thousands of U.S.S.)	1979	1978
Shareholders' surplus	521,796	443,813
Underwriting reserves	6,794,341	5,644,234
Reinsurance deposits	365,137	318,778
Other liabilities	810,767	651,691
Profit of the Year	61,986	43,306
	\$8,554,027	\$7,101,822

This Balance Sheet consolidates 34 insurance companies operating in 35 markets; 4 service, 12 financial, 10 property and 3 agricultural companies, where Generali holds directly or indirectly more than 50% of the shares.

Investments total U.S. \$7,486.7 million (+18.8% over 1978) distributed as follows:

	Life %	Non-Life %	Total %
Italy	20.1	7.8	27.9
Other E.E.C. countries	33.4	18.4	51.8
Rest of Europe (not in E.E.C.)	8.5	9.7	18.2
Rest of the World	0.7	1.4	2.1
	62.7	37.3	100.0

Net technical reserves amount to U.S. \$6,794.3 million (+20.3%).

Investment income amounts to U.S. \$567.2 million. (+20.0%).

Of the shareholders' surplus of U.S. \$521.8 million, 82.3% belongs to Generali Group.

The profit for the year is U.S. \$62.0 million (+43.1%).

Gross premiums amount to U.S. \$3,518.4 million (+18.1%) distributed as follows:

	Life %	Non-Life %	Total %
Italy	10.1	17.5	27.6
Other E.E.C. countries	13.9	30.2	44.1
Rest of Europe (not in E.E.C.)	4.6	19.5	24.1
Rest of the World	0.8	3.4	4.2
	29.4	70.6	100.0

Italian business in respect of Premiums, Technical Reserves and Investments amounts to about 30% and the Rest of the World 70%.

The Stock Exchange capitalization of Generali has increased from U.S. \$858 million at the end of 1978 to U.S. \$2,388 million at the 10th September, 1980.

GENERALI

Assicurazioni Generali S.p.A.
Trieste, Italy

Announce the opening of two new branches:

Generali, Guernsey

Managers
St. Peter's Trust Company Limited
Maison Allaire, Smith Street,
St. Peter Port, Guernsey, G.I.

Generali, Isle of Man

Managers
Lloyd's Life Assurance (Isle of Man) Limited,
Lorne House, Castletown,
Isle of Man

These Branches extend the services offered to expatriates to provide Life and Endowment Policies, Employee Benefit Schemes and Managed Fund Investment Facilities.

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117 Fenchurch Street, London EC3N 5DY

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PLANT & MACHINERY SALES

- 1) ROLLING MILLS
12in x 30in x 35in wide x 400 hp Four High Reversing Mill.
5in x 12in x 10in wide variable speed Four High Mill.
3.5in x 8in x 9in wide variable speed Four High Mill.
10in x 16in wide fixed speed Two High Mill.
10in x 12in wide fixed speed Two High Mill.
6in x 16in x 20in wide Four High Mill.
150 x 100 mm x 15 hp Two High Tape Rolling Mill.
110 x 100 mm x 10 hp Two High Rolling Mill.
- 2) 10in x 8in x 75 hp Two Stand, WIRE FLATTENING AND NARROW STRIP ROLLING MILL.
- 3) DECOIL FLATTEN, AND CUT/LENGTH LINES. (SHEETS)
1500 mm x 0.5 mm / 32 mm x 10 Ton / 15 Ton Coil.
1100 mm x 2 mm / 8 mm x 5 Ton Coil.
1500 mm x 0.5 mm / 2 mm x 15 Ton Coil.
750 mm x 1 mm / 3 mm x 5 Ton Coil.
400 mm x 0.5 mm / 3 mm x 2 Ton Coil.
- 4) DECOIL STRAIGHTEN & CUT/LENGTH LINES (ROD).
32 mm to 16 mm diameter x 2 Ton Coil.
16 mm to 6 mm diameter x 1 Ton Coil.
8 mm to 2 mm diameter x 1 Ton Coil.
- 5) SLITTING LINES
1220 mm x 3 mm x 5 Ton Coil.
920 mm x 5 mm x 10 Ton Coil.
920 mm x 2 mm x 2 Ton Coil.
300 mm x 1.5 mm x 1 Ton Coil.
36in and 48in Sheet Slicers.
- 6) WIRE DRAWING MACHINES
6 Block, in line, variable speed (560 mm dia x 25 hp D.C.)
9 Block, non slip cumulative (610 mm dia x 25 hp A.C.)
8 Block, non slip cumulative (560 mm dia x 25 hp A.C.)
6 Block, non slip cumulative (356 mm dia x 7.5 hp A.C.)
Horizontal Drawblock variable speed (915 mm dia x 75 hp D.C.)
Horizontal Drawblock variable speed (436 mm dia x 15 hp D.C.)
Vertical Drawblock (2) variable speed (610 mm dia x 25 hp D.C.)
13 and 15 Die Cone Type & Spooler, 4500 ft/min (2 machines).
9 Die Cone Type & Finishing Block, 750 ft/min.
- 7) BAR REELING & STRAIGHTENING MACHINES
Plate 25 mm to 116 mm capacity.
Rebar 8 mm to 32 mm capacity.
Plate 6 mm to 18 mm capacity.
- 8) SHEARS AND GUILLOTINES
1220 mm x 25 mm, Cincinnati Plate Shear.
510 mm x 16 mm / 50 mm x 50 mm PELS Scrap Shear.
2.5m x 3 mm high speed mechanical Guillotine, Keetone.
- 9) SHEET LEVELLING ROLLS 920, 1150 and 1850 mm wide.
- 10) HYDRAULIC SCRAP BAILING PRESS, Fielding & Platt.
- 11) FORGING HAMMER 3 cwt. slide type, Massey.
- 12) AUTOMATED COLD SAW, non-ferrous, Noble & Lund.
- 13) ROTARY SWAGING MACHINE, 25 mm capacity.
- 14) 28in COLD SAW, Noble & Lund.

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PLANT AND MACHINERY AUCTION

WEDNESDAY, 28th NOVEMBER, NOON

Entries will include 50 slip and demountable vehicles. Many 77/79/80 Bedford, Leyland, SED/ATK, Ford and other types, also TR units and trailers, tippers, box vans. Some new vehicles, trailers, flats and tippers, skips.

View: Monday/Tuesday, November 3/4.

Private treaty office on site.

Auction site off M5, Junction 2 Island midway.

Wolverhampton-Birmingham

Catalogues: 021-552 2803. Telex: 336192

TO GET YOUR BUSINESS GOING WE'RE ADOPTING A RATHER UNUSUAL POSTURE.

You may think that bankers' necks are constantly protected by high, starched collars.

But we believe that the time's come to stick ours out a bit, at least as far as smaller businesses are concerned.

We share the Government's view that a lot of thriving small businesses can do much for the country's growth and help reduce unemployment.

So we're using phrases not often found on bankers' lips, like "easy repayment terms" and "low security requirements".

Our Business Start Loan provides start-up capital for new projects: £5,000 to £50,000 for five years.

One of the most attractive features is that you don't pay interest in the traditional way, on the amount of the loan outstanding. You pay an agreed amount of royalty linked to your sales performance.

So the amount you pay is likely to be lower to start with, when interest payments are least affordable.

You repay no capital during

the term of the loan, but you must repay it at the end. Unless we agree to convert it to a medium-term loan.

Security requirements are remarkably low. They boil down to a straightforward charge on the assets purchased. No personal security is needed at all.

Our Business Expansion Loan is designed to finance the purchase of plant, property or any other capital assets which small or medium sized businesses might need to expand.

You can borrow from £5,000 to £500,000 for up to twenty years.

Repayments are made monthly and you can choose a fixed or variable rate of interest.

And because you may not initially make a profit from these assets,

we can, where circumstances justify, grant a capital repayment "holiday" of up to two years.

Normally, the only security we require will be the capital assets you've purchased.

When "The Times" heard about our two new loans, they were not unimpressed. "Barclays Bank," they said, "is showing some imagination."

You might say we're sticking our neck out to give you a leg up.

A word with your local Barclays manager, or this coupon, will bring you more information on our new loans.

(BLOCK CAPITALS)

Name

Company

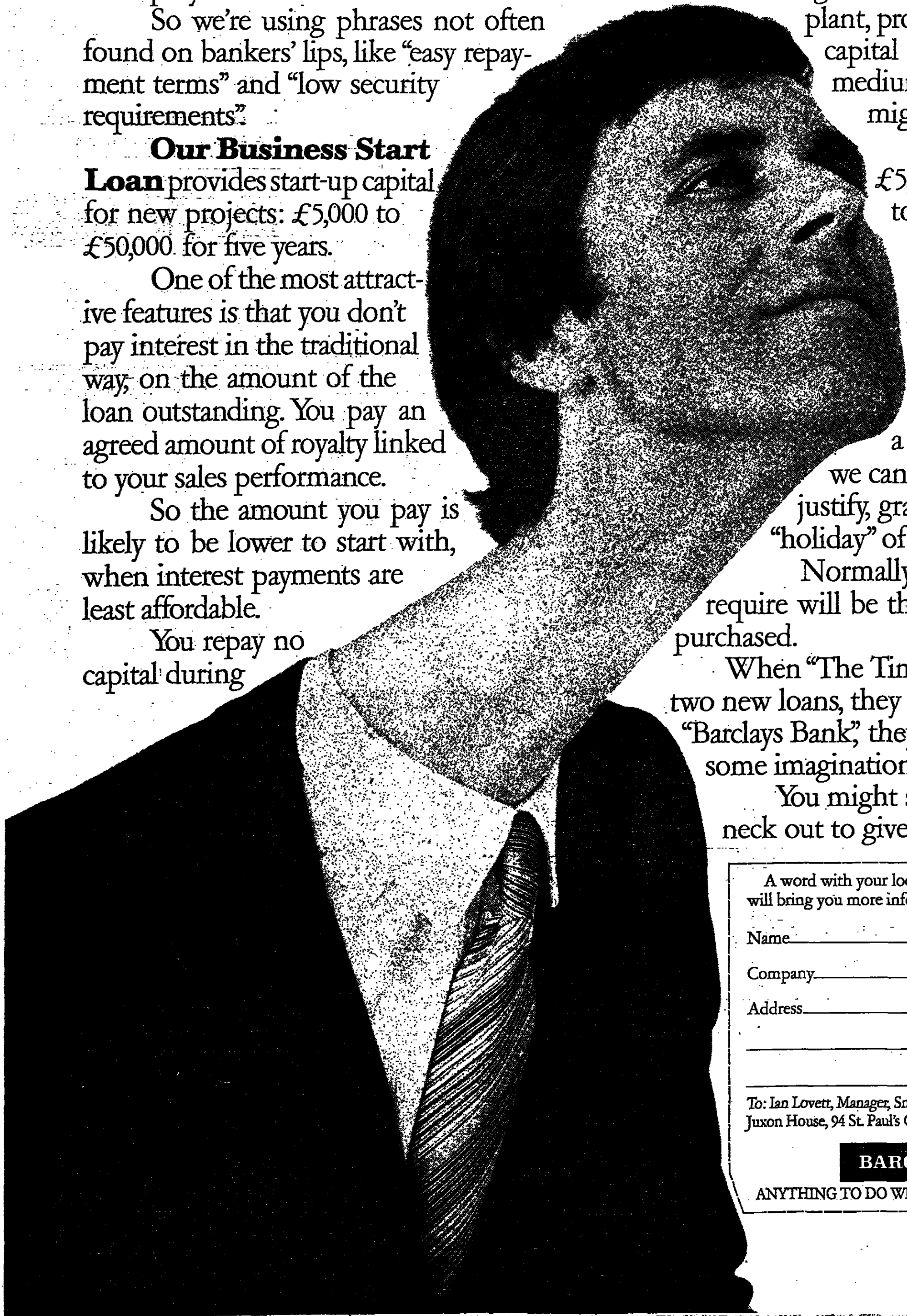
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To: Ian Lovett, Manager, Small Business Unit, Barclays Bank Limited, Juxon House, 94 St. Paul's Churchyard, London EC4M 8EH.

BARCLAYS BANK

ANYTHING TO DO WITH MONEY, ASK BARCLAYS FIRST



APPOINTMENTS

Sir Frederick Warner is BSI president

Professor Sir Frederick Warner has been elected president of the BRITISH STANDARDS INSTITUTION in place of Lord Shackleton, who has retired after completing his three-year term of office. Sir Frederick, who is principal consultant in the firm of Cremer and Warner, consulting chemical engineers, was chairman of BSI from 1973-76 and has been a deputy president since then. In 1977, at the request of NEDC, he produced a report on "Standards and specifications in the engineering industries."

McKECHNIE BROTHERS states that Dr. J. M. Butler, the group chief executive, has also been appointed deputy chairman.

The Energy Secretary has re-appointed Ian Smith and Mr. John E. Müller as part-

time members of the North Western Electricity Board for three years from October 31. Mr. Smith is the managing director of Baxi Heating, Preston, and Mr. Müller is the industrial liaison officer in Merseyside County Council's economic development office.

Mr. Geoffrey A. Hargreaves is joining the Board of BAIN DAWES.

Mr. John Jelliffe has been appointed a non-executive director of BAIN DAWES UK division, western region.

Mr. Rupert E. K. Hutton has been appointed to the Board of RESERVE ASSET MANAGERS from November 1.

Mr. C. H. Gregson has been appointed chief executive of MILES AND ALLEN MONEY BROKERS and Harlow Meyer

Savage. Mr. V. L. Holman, a director of Mills and Allen Money Brokers, has been appointed joint deputy chairman of HARLOW MEYER SAVAGE.

At the annual meeting of the FRIENDLY SOCIETIES LIASION COMMITTEE, Mr. F. G. Fenton (secretary, Association of Deposit Societies) was elected chairman for the ensuing year, in succession to Mr. R. J. Cole.

Mr. Cole will continue to serve as a member of the liaison committee. Mr. L. L. Munns (secretary of the Association of Collecting Friendly Societies) was re-elected secretary of the committee.

RALPH M. PARSONS CO., London subsidiary of Pasadena-based Ralph M. Parsons Company, has appointed Mr. Marvin M. McLain as managing director of the London office. He suc-



Sir Frederick Warner

ceeds Mr. Andrew V. Reznack who returns to Pasadena as project director of a contract in Alaska.

Mr. P. Robertson, a director of M AND C Investment Management has been appointed to the Board of DRAYTON FAR EASTERN TRUST, a company managed by Drayton Montagu Portfolio Management.

Professor Michael Adepoju Adeyemo has been appointed executive vice-chairman, LAWSON GROUP, Lagos, Nigeria. He was formerly the chairman of the National Bank of Nigeria and of the West African Provincial Insurance Company.

TEXACO has appointed Mr. J. B. Whitehead, legal adviser and Mr. J. F. K. Williams, controller, to the Board.

INSURANCE

Courts always at liberty to correct a misnomer

BY OUR INSURANCE CORRESPONDENT

THE GENERAL rule for the legal construction—in lay language, interpretation—of an insurance contract is that the contract is to be construed strictly against insurers, since in the normal course of business insurers provide policy wordings endorsements and so on.

As many decided cases show, it is up to insurers to get their words right, the sanction being that if they do not, the policyholder gets the benefit of any wider cover that the words in fact provide.

There are, however, occasions when the severity of this rule is mitigated, and an apt illustration is provided by the judgment of the Court of Appeal on Thursday in *Nittan (UK) Ltd v. Solent Steel Fabrications*. Cornhill Insurance Company Limited, third party.

The primary dispute, between *Nittan (UK)* and *Solent Steel Fabrications*, concerned malfunctioning of an electronic programmer controlling application of heat.

The programmer was supplied by *Solent* and an employee had not wired it properly. Proceedings were begun for breach of contract and negligence in supply and maintenance of the control system.

Solent looked to its insurers for protection.

Cornhill denied liability, relying on an endorsement to the products liability policy excluding liability in respect of goods supplied, altered or tested, not by *Solent* but by *Sargrove Electronic Controls*, for loss or damage caused by or arising out of the failure of any such goods to perform their intended function.

It was undisputed that *Solent* had previously taken over *Sargrove Electronic Controls* and equally undisputed that *Solent* had made a mistake in naming the latter company, a mistake undetected and uncorrected at the time of the incident giving rise to the claim.

Solent, having no answer to the claim by *Nittan (UK)*, submitted to judgment, but Cornhill continued to dispute its liability. In January Mr. Justice Wainman held insurers liable to pay £28,000 to *Solent*, saying that the exclusion must be read strictly and that insurers must abide by their mistake.

Cornhill appealed, saying that it should not be so prejudiced by a misnomer, when it was so clear that both insurers and policyholder had intended that the particular exclusion should

apply to *Solent*, and the appeal was heard favourably by all three Appeal Court judges.

All three agreed that the exclusion clause, apart from the misnomer, applied precisely to the circumstances of the claim by *Nittan (UK)*.

There had been incorrect assembly by one of *Solent's* employees, insurers had intended that the exclusion should apply to such an event. The only impediment to the application of the exclusion was the misnomer.

Previously decided cases—*Lord Denning* cited two from the early 1960s—showed that no one could take advantage of a misnomer, and that the court was always at liberty to correct a misnomer. This being so, the judges agreed that Cornhill should not pay.

In their judgments, the judges put the correction of such a misnomer lower down the construction scale than what is called the rectification of a contract.

To ground a claim for rectification some mistake more substantial than simple misnomer must be shown, and then the court must decide whether it is just and equitable as between the parties to allow rectification.

WEEK'S FINANCIAL DIARY

The following is a record of the principal business and financial engagements during the week. The Board meetings are mainly for the purpose of considering dividends and official indications are not always available whether dividends concerned are interims or final. The sub-divisions shown below are based mainly on last year's timetable.

TODAY

COMPANY MEETINGS—Fidelity Investments, 77, London Wall, EC 2, 10.30.

BOARD MEETINGS—Final: Poshia Interiors, 10.30.

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This week in Parliament

PARLIAMENTARY BUSINESS

MONDAY, OCTOBER 27

Commons—Debate on National Health Service.

Lords—Local Government, Planning and Land (No. 2) Bill, report.

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What Whitehall found in the Boardroom

In the first of two articles, John Elliott reports on a programme to give civil servants experience in industry

INVITING a civil servant to attend a company's board meetings and take part in helping to formulate its policies is not every chairman's idea of corporate bliss. It also smacks of a degree of Government involvement in industry which is no longer in political fashion in Britain.

Yet that is just what has been happening during the past couple of years in three major industrial groups—United Biscuits, Tunnel Holdings and Delta Metal—in an attempt to help increase mutual understanding between industry and Whitehall.

Each of these companies has had one or more civil servants spending a day or two each month sitting in on board meetings of operating subsidiaries. Usually they have been unpaid observers, free to speak when they want to but without anything being expected of them in a formal sense. "There is no responsibility involved, one is a privileged guest," says one of the civil servants. But one company—Tunnel—has made its civil servant a fully fledged (though still unpaid) non-executive director.

Seven men have been involved so far, mostly high fliers in their late 30s or early 40s from the Department of Industry, where the idea originated. One has come from the Treasury. Care has been taken to ensure that their Whitehall jobs will not be compromised by any conflict of interest, and this has been helped by the fact that two of the companies—Tunnel and United Biscuits—mainly deal with the Departments of Environment and Agriculture, not Industry.

Subsidiary rather than main Boards have been used for two principal reasons. First, the problems raised by civil servants having to shoulder directors' legal responsibilities

to general shareholders are reduced, if not eliminated. Second, a civil servant learns about the sort of executive decision-making which is outside his Whitehall experience. One drawback is that subsidiary boards usually have no traditions of accommodating non-executive directors (except as representatives of their parent boards) and thus are not used to having outsiders sitting in on their meetings.

But the host companies have chosen subsidiaries with easily identifiable and understandable products—biscuits, cement and electrical plugs, for example—which has meant that the civil servants have not needed any specialised knowledge to understand and, eventually, to contribute to the Board's discussions.

The civil servants have been welcomed in the companies, although they have sometimes been aware of initial suspicions from people who have had little prior experience of civil servants apart from local regulatory officials like a VAT inspector. As a result, boardroom discussion may have been inhibited for a time.

"There's no reason why the works director should instantly welcome having a civil servant around just because his socially conscious chairman, who is used to Whitehall, has said it should happen," says one civil servant. (Almost all the civil servants have expressed surprise at how little is known about Whitehall at the operating board level in industry.)

The civil servants have usually gained valuable practical experience, although this has varied, partly depending on the organisational and management styles of the companies involved. They have seen the problems of running factories and the pressures and priorities of top line managers. In one or two cases they have

watched companies go through complex organisational and product changes, and have also seen how Government regulations—for example on hygiene or the environment—complicate a company's day-to-day operations. In recent months they have also seen how subsidiaries adjust to the problems of the recession within corporate policies laid down by main Boards.

The companies themselves have sometimes benefited from hearing a new view on their problems, as well as learning a little about how the Government works and about what motivates civil servants involved in Whitehall policy making. Both the companies and the civil servants have also gained from informal contacts developed outside the boardroom.

The scheme was started by Sir Peter Carey, Industry Department permanent secretary, who has been concerned for some time about the lack of mutual understanding between Whitehall and industry. He sees the boardroom scheme as an extension of more traditional full-time secondments between Government Departments and companies. "I believe it provides useful experience for the civil servants and is a positive way of meeting criticism that civil servants don't understand industry and the way it works," says Sir Peter, who is hoping to arrange for two or three more civil servants to join other companies soon.

Other more traditional forms of interchange have existed for some years, with civil servants being seconded for periods of up to three years to work full-time in private sector companies. Sometimes there have been as many as 30 civil servants from the Departments of Trade and Industry doing such work at any one time, with about 15 to 20 people from industry on return secondments in Whitehall.

Some companies are also seconding MPs for short periods to increase Parliament's understanding of industry. But many companies, especially those of medium size quite often find it difficult to give these MPs and the full-time seconded civil servants a useful enough managerial job for them to be taken seriously and to gain maximum experience. It is for this reason that several company chairmen are interested in the part-time boardroom arrangements, although some companies have decided not to become involved because they do not want civil servants in their boardroom.

Tomorrow's Management Page will examine the experiments in Tunnel Holdings and Delta Metal.

Business courses
Financial Reporting in the EEC—new developments. Brussels, November 18-19. Details from European Study Conferences, Kirby House, 31 High Street East, Uppingham, Rutland, LE15 9PY.
Labour Relations in Europe in the '80s. Brussels, November 26-28. Details from Management Centre Europe, avenue des Arts 4, B-1040 Brussels.



UB's civil servants (1 to r) John Warn, Brian Willott, John Cammell, Robin Lingard

THE IDEA of putting civil servants into the boardroom grew out of a conversation between Sir Hector Laing, chairman of United Biscuits, and a senior Industry Department civil servant. The Department of Industry official made a remark about boardroom life which apparently drew the brisk retort: "If that's how you think we operate, you'd better come and sit in on our meetings."

In the middle of 1978 two Industry Department civil servants became what Sir Hector calls "observer directors" on United Biscuits' divisional boards. Brian Willott, then an assistant secretary involved in industrial aid and now the secretary of the National Enterprise Board, went to the cakes division. John Warn, who used to be an under-secretary dealing with general industrial policy and is now deputy director of the Office of Fair Trading, went to the biscuits division. They each stayed about a year.

They were then replaced by John Cammell, an assistant secretary dealing with the motor industry, who is attached to the operational board of UB Foods (the company has reorganised itself

into formal subsidiaries) and by Robin Lingard, an assistant secretary on electronics and computers, at UB Biscuits.

Most of these civil servants feel they have contributed little to their boards' executive committee-style of discussions, especially in their early months, because of the detailed nature of the subjects dealt with. But, backed up by tours of factories and participation in management conferences, they have found their experience has helped to increase their understanding of industry to a degree which could not have been achieved just by company visits.

"I learned quite a lot about industrial operations, about the financial emphasis, and about meeting customers' complex requirements," says Willott. A lot of time was needed to read papers and, like several of the others, he found he could not always free himself from Whitehall for the fortnightly board meeting in West London.

Warn's board met weekly and there was no suggestion that he should attend every meeting. He usually went every three or four weeks, which inevitably broke continuity and made it more

difficult to keep up with the issues.

Cammell has found it even more difficult than Willott to get away, and recently had a seven- or eight-week gap between attendances. Mr. Lingard also attends every four weeks or so, and his board tries to organise its agenda so that it discusses an issue which will interest him—for example marketing or budgeting—as well as dealing with regular production reviews.

For these civil servants the meetings are not often likely to be intellectually stimulating. One or two have been amazed by the time taken nibbling a Bourbon biscuit, or discussing a cream slice, when deciding how well a factory has performed. But, as one of them says: "In its way it's relaxing and stimulating because it's quite different from the macro and strategic discussions and decisions on companies that we sometimes become involved with in the Department."

Sir Hector Laing is disappointed by the fall-off in attendances but is willing to carry on. "If they think it's all worthwhile, then we'll have some more."

First impressions

David Fishlock talks to students on a GEC-sponsored course at Bath University

A HANDPICKED and highly confident group of students has just begun the first year of a new university course designed to produce a novel breed of British engineer. Each will have a guaranteed and responsible job to go to in the GEC group on graduation in 1985.

The 38 are the first intake onto a course especially devised for GEC's Marconi subsidiaries (and described on this page on August 15, 1979). Before starting at the University of Bath they spent a four-week induction period together at a management centre near Marconi's headquarters in Essex, learning how to work as part of a management team.

Not only did they get to know Marconi's senior executives as well as their professors from the School of Electrical Engineering at Bath, they visited various electrical engineering installations, learned how a factory is organised, questioned eminent visiting engineers, and played business games. Above all, they got to know one another well, and how to work together.

It's really comforting," admitted one of the seven girls among the 38 students. She started with qualms about choosing to read engineering but the month in Essex has dispelled them. "We think the course has worked."

The course originated from Marconi's view that existing graduate engineering education was taking too long to turn graduates into productive employees. The company wanted a course much stronger in a whole range of "support technologies"—people, commerce, and so on.

GEC is sponsoring the entire intake of students this year; 31 by Marconi group companies and the other seven from other GEC companies. The students have from three to 10 A-levels each, and good marks.

Did it worry them that defence dominates Marconi's activities? Not at all, they reply. "It's more interesting."

They were frank about weaknesses in their knowledge and experience, and the limitations of their designs. They parried questions with aplomb. They ventured the occasional sardonic opinion—for example, about the company form one student had seen which implied that nothing was legal and binding on Marconi.

The students will be back with the company next summer, and each summer thereafter until 1984. Then they will spend their final six months with the company, before qualifying for an M. Eng. degree. Unfortunately one man who has done much to shape their lives for the next four or five years will no longer be with them, for Prof. Gosling, head of Bath's School of Electrical Engineering, has been head-hunted by a rival organisation, Plessey. Other companies may care to take their cue and prepare to outbid GEC for the services of what promises to be a new breed of British engineer in the mid-1980s.

cover all the customer and seller factors involved in creating, making and selling a new product. They learned specific skills—how to solder, how to test modern electronics, how to approach the task of designing.

They were placed in groups of six or seven at the start of the course, each containing at least one female. There were plenty of problems in the first week, says Hugh Wassell, former engineering director of Marconi and a principal architect of the new course. But gradually they sorted themselves out into management teams in response to engineering problems which demanded decisions. The teams delegated responsibility for different aspects of the problem, obliged each member to speak up for his own decisions, and elected a managing director to co-ordinate the process. "Real engineering in miniature," says Wassell.

Lucid

The four-week course ended with a public presentation by each group of its progress with an exercise involving the design, manufacture, marketing, etc. of a simple electrical component. Each group had critically to appraise its own design and its subsequent business decisions and face questions from an audience of company executives and industrial training personnel.

For so brief a period of instruction the students displayed a remarkable degree of sophistication about the way high technology industry works. They were self-confident, lucid and highly articulate. They were frank about weaknesses in their knowledge and experience, and the limitations of their designs. They parried questions with aplomb. They ventured the occasional sardonic opinion—for example, about the company form one student had seen which implied that nothing was legal and binding on Marconi.

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The quarterly report as of 30th September, 1980 has been published and may be obtained from

Pierson, Holding & Pierson N.V., Herengracht 214, Amsterdam.

EUROBONDS

The Association of International Bond Dealers Quotations and Yields appears monthly in the Financial Times.

It will be published on the following dates in the remainder of 1980:

November 11
December 16

There is a limited amount of advertising space available each month. If your company is interested in taking advantage of this offer please contact:

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Building and Civil Engineering

£8.4m road work by Mowlem

A BIG road job in south east London has just been started by John Mowlem for the Greater London Council. It is due to be completed in the autumn of 1982.

Called the Thamesmead spine road section 3, the £8.4m contract calls for 1½ miles of dual two-lane carriageway from Harrow Manor Way eastwards across Erith Marshes to Yerton Way.

Over the marshlands, the road will have a pulverised

fuel ash embankment on a drainage layer of granular material separated from the existing ground by a filter membrane.

The work will include five structures, the longest being a five-span flyover carrying the new road over Belvedere Road and the southern outfall sewer embankment. Three of the flyover's piers will be founded on driven piles, while the other three, owing to their proximity to the main sewers,

will be supported by barrettes: large cast-in-situ piles formed by diaphragm walling techniques.

Flyover at airport to be built

LAING WIMPEY Alireza has been awarded a £3m contract by the Saudi Arabian Ministry of Defence and Civil Aviation to build a two-span reinforced concrete flyover, approach roads and a 500 square metre extension to the terminal building at Abha civil airport.

Work starts soon and is due for completion within 15 months. Consulting engineers for the project are Netherlands Airport Consultants of The Hague.

Abha Airport was completed by Laing Wimpey Alireza last year in two phases totalling about £42.5m.

£2m orders for Mansell

CONTRACTS worth over £2m have been awarded to R. Mansell. Two of them are for Guy's Hospital: one is for the building of a mortuary, involving extensive alterations to existing buildings and the second is the refurbishment and modernisation of a chapel wing.

Valued at £900,000 the works will be under the direction of architects, Watkins Gray. Both jobs are due for completion in October 1981.

Further refurbishment work includes the modernisation of the offices at Austin Friars, London, EC2, for Southern and South

Western under a contract valued at £550,000. London and Paris Properties has placed a £185,000 order for refurbishing and structural alterations to form offices at Queen Street, London, W1, while at Henrietta Street, WC2, work has started on modernising office accommodation for the National Provident Institution. This work, to be completed by April 1981, is valued at £198,000.

Other orders, including work for the Industrial Bank of Japan, the Honorary Society of the Middle Temple and the Trustees of the Pollen Estate, are valued at over £200,000.

£2.7m batch of contracts

COMPANIES IN the London and Northern Group have won contracts worth over £2.7m.

These include awards worth £155m for Border Engineering Contractors of Whitehaven for 24 dwellings for North Eastern Housing Association at Wighton, administration offices for British Gas Corporation at Workington and fire hydrant mains for Workington collectively worth £480,000. Other contracts are for 26 dwellings at Appleby for Eden District Council (£409,258) and alterations to form new offices at Lancaster for Lancaster District Council (£584,694).

In North-East England, Wilsons (Spenningmoor) has won new orders totalling £410,000 for revitalisation work for Sedgfield District Council and the North-Eastern Housing Association, while James Richmond and Sons has been awarded land drainage contracts in Lincolnshire valued at £165,000.

In Scotland, Simpson McLaren, has been awarded a

£260,000 contract for the construction of a tenants meeting hall at West Drumoyne for Glasgow District Council and in the Midlands, E. Fletcher (Builders) has won a £340,000 contract for re-habilitation work on 50 houses at Bradwell for the Borough of Newcastle-under-Lyme.

£2m shops centre

A NEW shopping centre for the Warrington District of Peterborough New Town is to be built by Bryant Construction. The contract is worth £2m and work, which is now starting, is due for completion in 30 months.

The centre will comprise 20,000 sq ft of shopping units and offices, a 30,000 sq ft supermarket, a police station, and a 3,600 sq ft public house.

Mixture of jobs for Henry Boot

SEVERAL of the latest contracts awarded to Henry Boot are on fee and management contracts: bases. Altogether the awards are worth about £4m.

The contracts cover construction and finishing of blocks of flats overlooking the River Thames at Nine Elms, London, completion of an office block in Eastern Road, Romford, and an office block and multi-storey car park at Richmond, all for Samuel Properties.

Other work includes refurbishment of a Harley Street, London clinic for American Medical (Europe) and two jobs for the Boot's Company—extension and fitting out of a branch in Town Square, Basildon, Essex and similar work at the branch in Hales, Hull—a housing contract for Milton Keynes Development Corporation.

Modernising homes

A CONTRACT for the modernisation of 140 council homes owned by Inverness District Council has been awarded to Drake and Scull (Scotland).

This contract, which is worth £2.3m, involves the installation of central heating, new bathrooms and kitchens, and the re-wiring of all the properties, together with external repair work and structural alterations. The work is due to be completed by spring 1982.

Leech gets £1.7m worth

LEECH Construction the newly-formed division of Leech Homes (North East) has won two contracts totalling over £1m.

The largest is worth just under £800,000 and entails the building of 49 council houses at Errington Place, Prudhoe for Tyndale District Council. The other contract has been awarded by Conder, Northern which has sub-contracted Leech Construction to carry out the main building works of a new office block development for St. James Properties in Newcastle. Leech Homes (Scotland) is carrying out a £700,000 housing project at Innehan, Dunoon, which will eventually accommodate U.S. Navy personnel.

£4½m awards to Norwest Holst

CONTRACTS worth £4½m have been won by Norwest Holst. Among the larger awards is a £1½m contract from Laing Properties for the construction of six industrial units at the Brent Trading Centre, North Circular Road, London.

Other contracts are for building and civil engineering works for a coal preparation plant at Boleover colliery in Derbyshire (£642,000), and for work in connection with the Angelsey to Stanlow pipelines for Shell UK Oil.

There is also a £183,200 contract from Remploy for factory alterations at Dock Road Industrial Estate, Wallasey, £71,450 contract for alterations to a factory at Knowsley Industrial Estates Corporation, and a £1½m contract from the

Water Research Centre for research facilities on the Blagrove Industrial Estate at Swindon, Wiltshire.

Smaller awards, bringing the total to £4½m, have gone to Norwest Holst companies Nott Brothers (£241,000), Marshall Andrew (£435,000), British Airways Authority (£235,000) and Eastbourne Waterworks Company (£200,000).

Hallam Group kept busy

SPECIALIST IN instant accommodation and system building, the Hallam Group of Nottingham, has just announced contracts worth £4m.

Volumetric housing accounts for £1½m worth of new business contracts for the company's volumetric system which has been agreed with the City of Nottingham and Mendip District Council, in the public sector, and Leech Homes in the private sector.

The company says it can deliver a house, decorated and fully equipped, ready for cladding, tiling, connection to mains services, and ready for occupation inside two weeks.

The company's Linpac system is to be used for additional office accommodation by the United Kingdom Atomic Energy Authority and Smiths Industries. This is an entirely portable, flexible, self-contained relocatable accommodation method which can be added to and altered to meet changing needs.

Used extensively at Standed Airport and in a major extension programme to Papworth Hospital in East Anglia, the Derwent system which the com-

pany says has been tried and tested for over 25 years. Based on a range of standard sized panels, it is being continually developed to minimise maintenance costs and improve energy conservation standards.

Export business has been expanded with the announcement of Dutch and French contracts worth nearly £2m.

In the Netherlands, the Linpac system is being used by local authorities in schools and other educational establishments.

The company says it has successfully negotiated contracts in France for Hallamcub—a self-contained, linkable, stackable and relocatable unit.

Work overseas also includes the extension to a college in Kuwait Town, Qatar, the design of which is based on the Derwent system. This is the second extension to the college and brings the total contract value here to £1½m.

Estimating is not so laborious

A COMPUTER software package which releases the building estimator from the drudgery of calculation is now available from Genesys, the software house.

Called "Interest" (Interactive Estimating) the package was developed with government funding at Loughborough University of Technology.

It is based on the manual procedures commonly employed in estimating departments and, according to Genesys, does not attempt to replace the estimator or his method of working.

Features include the ability to price bill items in any order, the introduction of new resources into any estimate and movement of money within the bill to achieve adjustments without affecting the overall tender price. Genesys is on 0509 39185.

Industrial project in Northampton

PLANNING application has been made for the industrial development of the site of the former power station in Northampton.

Consultant architects are Dennis Bray, Edwin Williams and Partners. Total area of the site is 6.63 acres and the proposals cover provision of "nursery" units, offices, car parking facilities and access roads.

In brief

● Tenders are due to be received at the end of this month for a £3m cement storage and distribution depot at Carlisle, Cumbria for Blue Circle Cement. It will occupy a 6-acre site and replace a temporary depot.

BUSINESSMAN'S DIARY

UK TRADE FAIRS AND EXHIBITIONS		
Oct. 28-30	Electronic Test and Measuring Instrumentation Exhibition (0822 4671)	Wembley Conference Centre
Oct. 28-30	National Housing and Town Planning Exhibition and Conference (01-686 5741)	Metropole Hall, Brighton
Oct. 28-30	Control and Instrumentation Exhibition (01-855 7777)	Harrogate
Nov. 4-6	Computer Peripheral and Small Computer Systems Exhibition and Conference (01-837 3636)	Olympia
Nov. 4-9	Kensington Antiques Fair (0822 2266)	Kensington New Town Hall
Nov. 6-16	Caravan and Holiday Show (01-353 4000)	Earls Court
Nov. 8-16	Daily Mail International Ski Show (Midway 47111)	Earls Court
Nov. 9-11	International Garden and Leisure Exhibition—GLEE (01-646 6757)	National Exhibition Centre, Birmingham
Nov. 11-13	Fast Food Fair and Conference (01-837 3636)	Metropole Hall, Brighton
Nov. 11-14	London Business Equipment Exhibition (01-405 6333)	Cunard Int'l Hotel, W8
Nov. 12-15	International Festival of Wine (0703 2248)	Post House Hotel, Southampton
Nov. 16-19	Sunday Times Business to Business Exhibition (01-407 4048)	Belle Vue, Manchester
Nov. 24-29	International Food, Wine and Kitchen Exhibition (08284 2442)	Magnum Exhibition Centre, Leicester
OVERSEAS TRADE FAIRS AND EXHIBITIONS		
Current	International Exhibition of Inventors and Novel Features (01-278 0231) (until Oct. 29)	Bruno
Nov. 3-8	International Engineering Exhibition—ENKOR (01-681 7688)	Seoul
Nov. 4-7	International Textile Fair—Clothing Textiles—INTERSTOFF (01-734 0543)	Frankfurt
Nov. 9-16	International Boat Show (01-540 1101)	Copenhagen
Nov. 9-14	Middle East Building Materials and Construction Industry Exhibition (01-496 1951)	Bahrain
Nov. 14-23	Mining Industry Technical Fair—TECNOMIN (01-681 7688)	Lima
Nov. 17-22	International Packaging Exhibition (01-409 3964)	Paris
Nov. 17-22	Medical and Hospital Exhibition and Congress—MEDICA (01-409 0954)	Dusseldorf
Nov. 19-22	International Hospital Engineering, Exhibition and Conference—HOSPEX (01-496 1951)	Tokyo
Nov. 19-29	Pacific International Trade Fair (01-681 7688)	Lima
Nov. 24-29	Oil and Gas Industry Equipment and Services Exhibition (01-936 8200)	Mexico City
Dec. 8-12	International Machine Tool and Woodworking Show—METALASIA (01-496 1951)	Singapore

BUSINESS AND MANAGEMENT CONFERENCES

Oct. 27-28	AMR International: Planning and Control Techniques for Managing Maintenance Operations (01-282 2732)	Amsterdam
Oct. 27-30	Brunel Institute: Job Evaluation—The setting of differentials (0895 56461)	Uxbridge
Oct. 28	The Institution of Production Engineers: The Control of Automated Assembling Machines using I.C. Systems (01-879 9411)	London, W5
Oct. 28-Nov. 1	Admap: What Price Marketing? Justifying Expenditure in a No-Growth Economy (01-379 6576)	Vienna
Oct. 28-30	Institute of Personnel Management: Recruitment Advertising and Communications (01-387 2844)	Embassy Hotel, W2
Oct. 29	CBI/BASATA: India 1980 (061 707 2190)	Ld. Daresbury Htl, Warrington
Oct. 30-31	FT Conference: Australia—The Attractions for Future Investors (01-821 1355)	Meibourne
Oct. 30-31	AND Legal: Essential Management Law—Refreshers (07535 56047)	London
Nov. 3-4	FT Conference: Investment in Malaysia (01-621 1355)	Kuala Lumpur
Nov. 4	Gwynn Jenkins: Forecasting For The City (0894 8101)	Clifton Ford Hotel, W1
Nov. 5	Abacus: Health and Safety in the Printing Industry—Reducing the Risks: Avoiding Confrontation (0804 881300)	Mount Royal Hotel, W1
Nov. 5-6	MTC: The Skills of Interviewing (0533 27082)	Leicester
Nov. 6-7	Graham and Trotman: Argentina and Chile—New Business Opportunities (01-493 6361)	Hilton Hotel, W1
Nov. 11	Oyez-IBC: Food Law for the 1980s (01-242 2481)	Princess Anne Theatre, BAFTA, W1
Nov. 13	London Chamber of Commerce: UK/Soviet trade conference (01-248 4444)	69 Cannon Street, EC4
Nov. 13-14	Kepler and Associates: Symposium on Oil and Gas Investing and Financing (01-584 4551)	London, WCI
Nov. 13	IPM: Industrial Relation Law (01-387 2844)	Waldorf Hotel, WC2
Nov. 14	Gover: Choosing and Using an Insurance Market (01-240 9931)	London Press Centre, EC4
Nov. 17-18	AMR International: Using Advanced Techniques in International Markets (01-282 2732)	Pall Mall, SW1
Nov. 17	Institute of Directors: The Common Market (01-839 1233)	Pall Mall, SW1
Nov. 18	Heliotechnic Educational: Opportunities for Marketing and Investment in Solar Energy (01-240 2430)	Pall Mall, SW1
Nov. 19-19	FT Conference: Retail Banking (01-621 1355)	Grosvenor House, W1
Nov. 20-31	FT Conference: Employment in the '80s (01-621 1355)	Grosvenor House, W1

Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there has been no change in the details published.

This advertisement is issued in compliance with the requirements of the Council of The Stock Exchange. It does not constitute an invitation to subscribe for or purchase any stock.

YULE CATTO & CO. LIMITED

(Incorporated in England. Registered No. 96381)

3,411,123 1½ per cent. Cumulative Redeemable Preference shares 1998-2003 of £1 each

The above mentioned Preference shares have been or will be issued pursuant to offers by Yule Catto & Co. Limited for the issued share capital of Revertex Chemicals Limited not already owned by Yule Catto & Co. Limited or its subsidiaries.

The Council of The Stock Exchange has admitted to the Official List the above mentioned Preference shares.

Full particulars are available in the Extra Statistical Service. Copies may be obtained during normal business hours on any weekday (Saturday excepted) up to and including 17th November 1980, from

Morgan Grenfell & Co. Limited, New Issue Department, 21 Austin Friars, London EC2N 2HB

Rowe & Pitman, City Gate House, 39-45 Finsbury Square, London EC2A 1JA

TENDERS MUST BE LODGED NOT LATER THAN 10.00 A.M. ON WEDNESDAY, 28TH OCTOBER 1980 AT THE BANK OF ENGLAND, NEW ISSUES, WATLING STREET, LONDON, EC4M 8AA OR NOT LATER THAN 3.30 P.M. ON THURSDAY, 29TH OCTOBER 1980 AT ANY OF THE BRANCHES OF THE BANK OF ENGLAND OR AT THE GLASGOW AGENCY OF THE BANK OF ENGLAND. TENDERS MUST BE IN SEALED ENVELOPES MARKED "TREASURY TENDER".

ISSUE BY TENDER OF £400,000,000

3 per cent TREASURY STOCK, 1985

MINIMUM TENDER PRICE £72.50 PER CENT

PAYABLE IN FULL WITH TENDER

INTEREST PAYABLE HALF-YEARLY ON 21ST MAY AND 21ST NOVEMBER

This Stock is an investment falling within Part II of the First Schedule to the Trustee Investments Act 1961. It has been made to the Council of The Stock Exchange for the Stock to be admitted to the Official List.

THE GOVERNOR AND COMPANY OF THE BANK OF ENGLAND are authorised to receive tenders for the above Stock. The principal of and interest on the Stock will be a charge on the National Loans Fund, with recourse to the Consolidated Fund of the United Kingdom. The Stock will be repaid at par on 21st May 1985.

The Stock will be registered at the Bank of England or at the Bank of Ireland, England, New Issues, Watling Street, London, EC4M 8AA, or at any of the Branches of the Bank of England or at the Glasgow Agency of the Bank of England, in accordance with the Stock Transfer Act 1953. Transfers will be free of stamp duty.

Interest will be payable half-yearly on 21st May and 21st November. Income tax will be deducted from payments of more than £5 per annum. Interest payments will be transmitted by post. The first payment will be made on 21st May 1981 at the rate of £1.00 per £100 of Stock.

Tenders must be lodged not later than 10.00 a.m. on Wednesday, 28th October 1980 at the Bank of England, New Issues, Watling Street, London, EC4M 8AA or not later than 3.30 p.m. on Thursday, 29th October 1980 at any of the Branches of the Bank of England or at the Glasgow Agency of the Bank of England. Tenders must be in sealed envelopes marked "Treasury Tender".

Amount of above-mentioned Stock tendered for, being a minimum of £100 and in a multiple as follows:—

Amount of Stock tendered for	Multiple
£100-£200,000	£100
£200,000-£500,000	£500
£500,000-£1,000,000	£1,000
£1,000,000 or greater	£5,000

Her Majesty's Treasury reserve the right to reject any tender or to allot a tender at a price other than that tendered for. If undersubscribed, the Stock will be issued at the minimum price, the balance of the Stock not tendered for being allotted at the minimum price to the Governor and Company of the Bank of England, Issue Department. It is understood that all allotments will be made at the lowest price at which any tender is accepted (the allotment price), and tenders accepted at prices above the allotment price will be allotted in full.

Letters of allotment in respect of Stock allotted, being the only form in which the Stock may be transferred prior to registration, will be despatched by post at the risk of the tenderer, but the price of any letter of allotment, or the refund of any excess amount paid, may at the discretion of the Bank of England be withheld until the tenderer's cheque has been paid. In the event of such withholding, the tenderer will be notified by letter by the Bank of England of the acceptance of his tender and the amount of Stock allocated to him, subject in each case to payment of his cheque, but such notification will confer no right on the tenderer to transfer the Stock so allocated.

No allotment will be made for a less amount than £100 Stock. In the event of partial allotment, or of tenders at prices above the allotment price, the excess amount paid will, when refunded, be remitted by cheque despatched by post at the risk of the tenderer. If no allotment is made the amount paid with tender will be returned to the tenderer. Non-payment on presentation of a cheque in respect of any Stock allotted will render the allotment of such Stock liable to cancellation. Interest at the rate of 1 per cent per annum over the Bank of England's Minimum Lending Rate on a day-to-day basis may, however, be charged on the amount payable in respect of any allotment of Stock for which payment is accepted after the due date.

Letters of allotment may be split into denominations of multiples of £100 on written request received by the Bank of England, New Issues, Watling Street, London, EC4M 8AA, or by any of the Branches of the Bank of England, on or after the date for lodgment at the Bank of England of tenders for the Stock. Such request must be received by the Bank of England on or before 14th April 1981. The interest due on 21st May 1981 will be paid separately on existing holdings of 3 per cent Treasury Stock, 1985 and on holdings of the Stock. Consequently, interest monies, authorities for income tax and in any case they must be lodged for registration not later than 28th November 1980.

Until the close of business on 18th April 1981 Stock issued in accordance with this prospectus will be known as 3 per cent Treasury Stock, 1985. A date for lodgment at the Bank of England of tenders for the Stock will be 14th April 1981. The interest due on 21st May 1981 will be paid separately on existing holdings of 3 per cent Treasury Stock, 1985 and on holdings of the Stock. Consequently, interest monies, authorities for income tax and in any case they must be lodged for registration not later than 28th November 1980.

A "Stock" from the opening of business on 21st April 1981 the "A" Stock will be amalgamated with the existing Stock. Tenders for the "A" Stock will be made by the tenderer in the form of a cheque payable to the Bank of England, New Issues, Watling Street, London, EC4M 8AA, or by any of the Branches of the Bank of England, on or after the date for lodgment at the Bank of England of tenders for the Stock. Such request must be received by the Bank of England on or before 14th April 1981. The interest due on 21st May 1981 will be paid separately on existing holdings of 3 per cent Treasury Stock, 1985 and on holdings of the Stock. Consequently, interest monies, authorities for income tax and in any case they must be lodged for registration not later than 28th November 1980.

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Technical Page

EDITED BY ARTHUR BENNETT AND ALAN CANE

PROCESSING

Algae purify effluent

AECI, SOUTH AFRICA's leading chemicals group, has developed a process for the purification of industrial effluent by mass cultivation of algae—which can then be used as protein for animal feeds.

A demonstration plant to produce 200 kilograms a day of dried algae will come into production at the beginning of next year. Tests are still being conducted on using the algae in animal feed mixtures.

The process involves the addition of carbon compounds, phosphorous, and other nutrients to the effluent to make it rich enough for algae culture. It was discovered in the course of finding ways of removing nitrogen from AECI's explosives factory at Modderfontein, outside Johannesburg.

This is an enormously expensive process if done chemically," Mr. N. A. Lever, AECI's environmental and services manager, said. "As algae thrive on a diet of nitrogen, it was decided to study the feasibility of algal mass culture as a means of removing the nitrogen, and help defray costs by having a saleable commodity at the end of the line."

The company has successfully cultivated the algae, first in laboratory flasks containing

non-organic nitrogenous effluent, then in small scale and pilot plant experiments. Problems of harvesting and drying the algae have also been overcome.

The multi-stage demonstration plant, costing some R750,000 (\$420,000), will use methods already patented by AECI locally, and in Israel, which has a similar climate. Although similar experiments have been carried out in the U.S., Japan and Israel on organic sewage, AECI believes it is the first to use industrial effluent.

"This could be a most significant development in animal feed production," Mr. Lever said. "Algae can replace ingredients such as fishmeal and expensive soya products in animal feeds."

It is considered particularly suitable for mono-gastric animals such as poultry and pigs.

Modderfontein's specially cultured algae contain more than 50 per cent protein, compared with about 9 per cent for maize, and 8 per cent from natural grazing.

AECI is jointly controlled by Britain's ICI and the De Beers group of South Africa.

AECI can be reached on Johannesburg 214651.

QUENTIN PEEL

Splashing £50m on power from the sea

BY BLAINE WILLIAMS

TEN BRITISH research teams in industry and the universities are competing for a £50m chance to prove that they can harness the power of the sea on a commercial basis.

Only one of the wavepower systems under development will be chosen for full-scale trials off the north west coast of Scotland—the Government says that it is too costly to try more.

So the teams have to prove that not only can their designs stand the rigours of the wildest sea storms but that they can produce energy at a price which is competitive with power stations fired by coal, oil and nuclear fission.

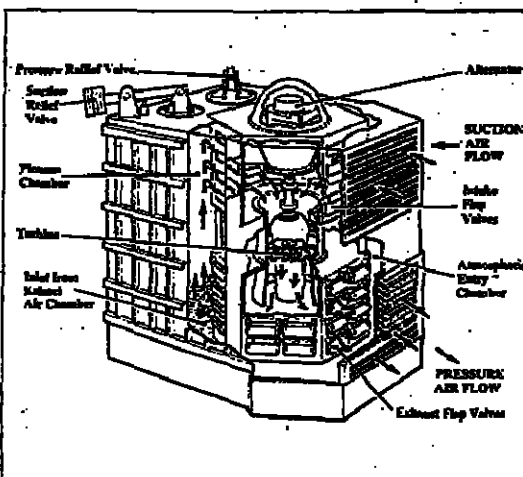
A new oil-fired power station would produce energy at between 6.5 and 7.5 p/kWh; coal costs only 3.5 p/kWh on average and nuclear energy costs 2.5 p/kWh. At present the average cost produced by wavepower devices is around 25 p/kWh.

Wavepower is also competing with other forms of alternative energy sources such as wind-power, geothermal and biomass which are beginning to look more promising and may have fewer problems associated with their development.

Industry observers believe that by next year the long term future—if there is one—for wavepower will become clear.

The basic idea is to convert the fluid power of the sea into electricity which can be supplied to the national grid to supplement the output of conventional power stations.

Designs for harnessing this energy are legion. One of the



Wave powered air-turbine generator, above; Lancaster Polytechnic's "ducks," 6 metres in length, right.



first types is exemplified by Mr. Stephen Salter's "nodding duck" technique where groups of hinged platforms floating on the surface bob up and down. This mechanical movement is translated into power by hydraulic means. Sir Christopher Cockerell's articulated raft uses the same principle.

Both these systems are so sufficiently advanced that one tenth scale models have been tried out. Salter's ducks have shown they can provide energy at 20p/kWh while Cockerell's raft shows results of 30p/kWh.

Other researchers have employed the oscillating or "piston" action of waves. This is used to force a trapped amount

of air through a turbine which then drives electric alternators to supply electricity.

Vickers is working on a version of this which calls an oscillating water column and has produced electricity at a cost of 15p/kWh. Vicker's device is submerged beneath the sea's surface and anchored on the seabed.

A full scale installation would be 30 metres in diameter and 17 metres high, covered by about 7 metres depth of water. Two removable power modules, each containing an air turbine and generator, together with control and monitoring circuits, are placed above the column and locked into position.

Based on this device Vickers has produced two other designs which the companies believe will eventually halve the cost of producing energy. About 80 per cent of the cost is simply to make the equipment. The Department of Energy recently provided £250,000 grant so that Vickers could carry on its work for another year.

Other examples of this kind of device is the "wave piston" under development at the National Engineering Laboratories at East Kilbride in Scotland. In 1978 they produced energy at a cost of 40p/kWh but this has since been improved to between 5p and 15p/kWh. Lancaster University working

with a company called Wavepower, has a system which uses a long, thin semi-submerged structure—containing two air filled bags. As the wave moves along the length of the device the bags are compressed and the air is moved in pulses along its length. These are fed through a turbine to produce electricity.

This simple system has emerged as one of the most promising. When it was first tested in 1978 it could then produce energy at a cost of about 8p/kWh.

Bristol University used the idea of an air bag. This is a huge floating cylinder anchored so that it is parallel with the oncoming waves. The cylinder moves in a circular motion as the waves pass over it. This causes a downward force on the mooring cables. This force can be used to drive several pumps connected to a generator.

Another relatively new device which produces low cost energy is known as the "clam" and is under development by Lancaster Polytechnic and Sea Wave Associates. In trials it has produced energy at only 5p/kWh.

It comprises a floating central spine with several hinged flaps connected to it. Air bags connected between the flaps act like bellows and pump air through turbines as before.

The major difficulty in choosing one system out of many is that the one that produces the cheapest energy may not be the most suitable in the long term simply because it may be less reliable than the more expensive versions. For example, the claim

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operates by pumping air from one air bag to another—a fault in just one of the bags causes the whole system to fail.

On the other hand, consumers are unlikely to be willing to pay twice as much for their electricity provided by wavepower simply because the system is stable and reliable.

LABELLING

Resists the weather

A MATERIAL with a white, matt paper-like surface can be printed by silkscreen, letterpress, litho and flexography using inks specially developed for the product, and is suggested for warning instructions and identification labels in extremes of environmental conditions.

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THE ARTS

Tricycle Theatre, Kilburn

Rise of the Old Cloud

by MICHAEL COVENEY

Mike Darrell's worthy, somewhat elliptical play about hardship in a 1930s Welsh mining community no doubt deserves a more enthusiastic response than I can muster. It follows the fortunes of a tight-knit group of miners, from a holiday camp for the unemployed at the start of the decade through the exultation of political demonstration (and a close-harmony version of the "International") to disruptive confusion at the outbreak of war. Should the men stay at the face or go to the front?

Weaving through the narrative are two love stories. The doomed, tuberculosis-ridden miner teams up with the middle-class girl he meets at the camp; while the boozing chauvinist comrade is stuck on a cheerful skivvy whose resolution buckles in the face of mass unemployment. There is also the middle-aged Labour Party stalwart and, as the play's central figure, the Communist Will Evans.

Because of the evasive nature of the writing it is difficult to tell how exactly Will undergoes the changes he apparently does. One minute he is pouring hard-line scorn on his colleagues, the next leading them in stony defiance down the high street. Finally, he has married the dead miner's wife and is preparing a definitive volume of history. There are some impassioned speeches about the indignity of unemployment but it all sounds like writing by numbers. I get no sense of the playwright's personality in the text beyond some winsome poetical passages when characters escape the grime to survey the landscape.

Good performances by Robert Rush as Will and Angela Phillips who leaps the class barrier to join the struggle. But Justin Greene's production for the touring company, Paines Plough, strikes me as a routine piece with its heart in the right place and its head nowhere in particular.

Wigmore Hall

Edward Melkus Ensemble

Melkus is an Austrian violinist known as performer and pedagogue for his association with authentic baroque performance practice. His ensemble, consisting of the first desk players of the Vienna Capella Academica, has just visited London.

They appeared on Friday night. The programme was presented by the Anglo-Austrian Music Society and it consisted of Divertimenti by Michael Haydn and Mozart, and a handful of Schubert's Minuets and Trios.

Nothing could have been more suitable than this selection of relaxed, entertaining music by native Austrian composers. The performance was advertised as "played on original baroque instruments." One can not question the dates of origin of the instruments Melkus and his ensemble used because details were not given in the programme. But the modifications made to the instruments—thin and neckless raised bridges, and the use of tensile metal strings and merrill bows—take the basic colour far from the authenticity the ensemble ostensibly seeks.

This was reflected by the interpretative stance of the players, which proved an uncomfortable halfway house between musically informed practice and the middle-of-the-road interpretative conventions of our own time.

The easy charm of the minuets in Mozart's Divertimento K.334 was plumb in the middle of the Viennese traditions; a nice blend of *kitzsch* and *schwung*. This was lovely but it had more to do with the three-quarter time of a Johann Strauss waltz than with the sturdier elegance of Mozart's world. Similarly, the outer movements of the Divertimento were played discursively, changing speed to suit the character of the phrase rather than unifying with a common pulse.

Melkus obviously means to stand Richard Strauss' dictum "there is only tempo, never tempo on its head, and in doing so he caused a number of ensemble problems.

Schubert's five Minuets and six Trios D.38, played by a string quartet, received the most enjoyable performance of the evening. This was due partially to the more romantic nature of the music, partially to the comparative lack of ensemble problems the hornless scoring provided.

RICHARD JOSEPH

New Vic, Bristol

Cyril's Little Moments

Julian Garner wrote this piece after reading in a newspaper about a 68-year-old football fan who spat in the referee's face at a match at Erit. What he has done is to provide him with a motive but he takes a long time doing it and hardly succeeds at all.

And Mr. Garner's version, old Cyril (David Swift, looking rather like Lord Longford) has a brother Josh, confined to a wheelchair, who is such a fan that he spends all his time listening to tapes of old games. Cyril goes to the local games, quietly takes notes, and comes home to give his brother full commentaries. I can't help wondering why Josh and his wheelchair don't go to the games themselves but this would spoil the story.

Cyril has one other friend, Alice, a teacher in a school for handicapped children. A boy in the neighbourhood, knowing that Cyril has a book full of autographs, ingratiates himself by telling him fictional tales of Cyril and Alice's carryings-on, which for some reason Josh persuades him to record on his tapes. After this, Josh is beaten up and killed by teenagers in his wheelchair, though how these two matters are connected is something Mr. Garner has not made clear to me.

So here is Cyril back on the terraces with all his late brother's excitement instead of his former modest attention, and when he disagrees with a referee's decision what more natural than to run on to the pitch and spit in his face? And after that, why not chat on a river-bank with the spirit of Josh, now restored to health and, in the friendliest way, watch the boy fishing?

Well, I must leave these questions unanswered, for I can think of no answer to them. Mr. Garner has only proposed a situation, without offering any development that I can follow. The old people David Swift, Arthur Cox as Josh and June Barrie as Alice, give sympathetic studies of sad elderly people, and there, as far as I am concerned, we stop. John Dove is the director.

B. A. YOUNG

SOCCER by TREVOR BAILEY

Six of the best should boost Chelsea

THE BIG ovation the Chelsea players received at half-time after the final whistle was fully deserved.

More than 22,000 turned up at Stamford Bridge for this Newcastle massacre, when they received six of the best.

If the Blues continue to serve up football of this calibre and goals in this quantity there should be far more spectators for their next home game.

Each of the young Chelsea side's six goals was delicious and clean-cut, a culmination of a fine attacking move.

Everyone who had the good fortune to see them on this occasion will certainly want to play another visit.

Both Chelsea and Newcastle possess the support tradition and facilities for First Division football, and on this evidence the Penarons could well like their fellow-Londoners West Ham, gain promotion this season.

It must be admitted that the visitors, with a team which lacked an adequate defence, maturity and heart, are unlikely to return to their proper habitat for some time.

Although Newcastle provided indifferent opposition, it is still a considerable achievement to score six goals in the second division match, and if Carr had not brought off several fine saves the margin would have been even larger.

Perhaps the best illustration of the gap between the contestants was when the home team, leading 5-0 and reduced to 10 men, were still able to increase their lead after a long determined dribble down the wing and a perfect cross which enabled Lee to complete his hat-trick.

Attacking

What was the secret of Chelsea's success? The answer lies in their successful application of that old footballing tactic of breadth; attacking on a broad front, and stretching the opposing rearguard until it snaps, crossing accurately from both flanks and regularly having two players in the box to convert the centres into goals.

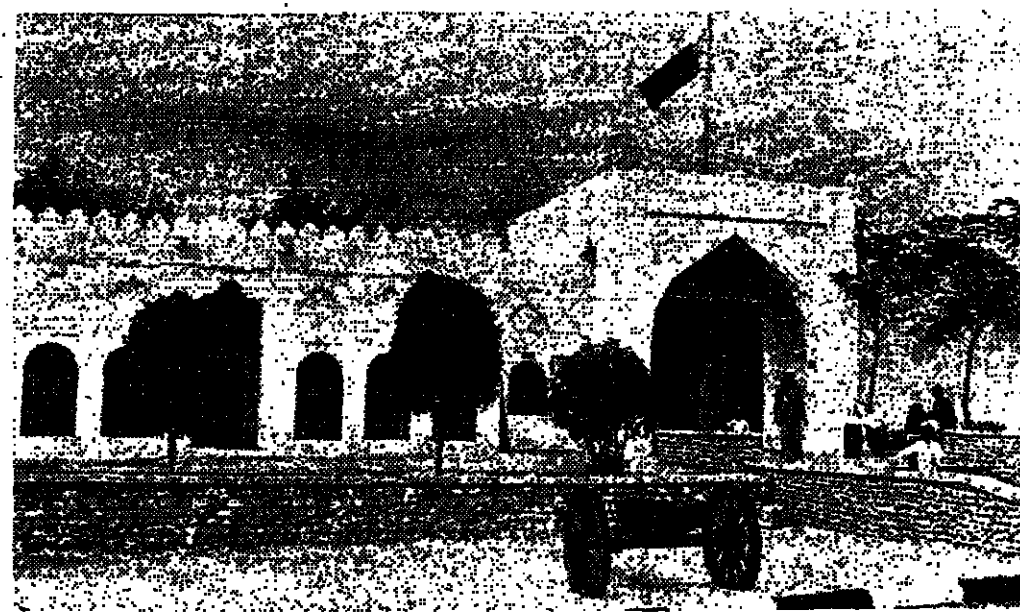
The employment of two deep-line wingers makes it easier to cast out of defence, or mid-field to an unmarked colleague, and less dependent on the ball into space and the quick one-two play-off.

There is much to admire about the team which Geoff Hurst has fashioned, and it is hard to understand why they started the season so poorly.

Lee, tall, brave and good in the air, forms the sharply contrasting spearhead with the clever, forceful Walker, while Driver on the right and Rhoades Brown on the left wing had not only the ability to beat a full-back both on his inside and outside, but also possesses that old-fashioned virtue, which makes such a tremendous difference, of being able to centre with precision.

Convincing

Driver, who was purchased from Wimbledon recently for only £20,000, a genuine bargain in this age of hysterical transfer fees, is clever, deceptively fast because of his long stride, and



The National Museum, Doha, designed by Michael Rice

Architecture

The best of Islam

by COLIN AMERY

Anyone who has travelled in the Middle East cannot fail to be aware of the rapid spread of new buildings that have been erected with little concern for traditional Muslim values. Architects from the West are not the only ones who have failed to learn the languages of Islamic culture as they are expressed in traditional buildings. Many of the efforts to dress up modern buildings with a veneer of concrete pointed arches are laughable attempts to make large, crude modern edifices more acceptable in the cities of the Muslim world.

One Muslim leader is determined to use his influence to rescue the environment of his followers from the "worst excesses" of Western materialism. The Aga Khan founded his award for architecture in 1977 to encourage a resurgence of true excellence in architectural design throughout the Islamic world.

There was no doubt in the presentation ceremonies held last week in the Shalimar Gardens, Lahore, Pakistan, that a revival of Muslim architecture is part of the "Resurgence of Islam." There was a strong plea for Muslim unity through culture, including architecture, in speeches made at the Lahore ceremonies, particularly by the President of Pakistan, General Zia.

After three years of research an international jury of architects and scholars gave the \$500,000 prize to 15 different projects. The jury emphasised that their selection represented a search for better architectural solutions to particular problems rather than any kind of final accolade.

The jury's approach to the selection of winners was to divide the short list into four main categories. They looked for schemes that showed ways of coping with social problems of the urban and rural poor in the Third World. Modern advanced technology was examined for its appropriateness to developing nations. A third category considered the use of small-scale technology, investigating building systems that could be used by an unskilled workforce. The fourth category looked at ways of

building that involved preservation, restoration or reinterpretation of the past.

The extraordinary thing about this new "Nobel" prize for architecture is the amount of preparation, planning and research that has preceded the award ceremonies. Thirty Muslim countries have been visited by the technical assessors and more than 200 schemes were nominated.

It is a salient fact that less than one-sixth of these were considered suitable for consideration by the master jury. Five seminars have been held to assist the jury towards a series of new definitions for a new architecture in the spirit of Islam. The impact of this first series of prize-winners is a subtle but persuasive one.

By far the most interesting schemes are two projects in Indonesia. One is almost invisible but very significant. The Jakarta City Government has begun to provide a basic road and drainage infrastructure for existing *kampung* (squatter settlements) where the people live at an average density of 500 per hectare. At a cost of only \$60 per capita, basic services have been provided for 450,000 people. In Central Java a self-help scheme for the building of a co-educational boarding-school is commended. Gradually this traditional Islamic community school is developing the skills needed to create an indigenous architecture.

These two awards where the architectural content is barely visible are indicators of the jury's awareness that grand architectural gestures have no place in the developing world. A third winner, the Agricultural Training Centre in Nianning, Senegal, makes use of local materials and traditional methods. Sand is available in abundance and this UNESCO-sponsored school for 80 boys employs sand-cement bricks made on the site. A lightweight concrete, arched vault forms the simple roof. The scheme is a model for simple buildings in Africa and the vaulted rooms possess traditional Islamic qualities. It is hoped to develop the system for low cost housing.

The European Development Fund sponsored the medical

centre at Mopti in Mali and the architect André Ravereau took an award. These unpretentious buildings are built of the local clay with natural ventilation. They stand on the banks of the Niger opposite the famous Friday mosque. A much-used pedestrian street passes through the hospital buildings and has integrated the new and older parts of the town.

A traditional-style house at Agamy in Egypt won a prize for its 70-year-old master-mason as well as the architect, Abdel Wahed El-Wakil—the domed house is built around an open courtyard and cool air circulates naturally through the rooms making air conditioning unnecessary. The superb craftsmanship which is evident in this house was rightly commended.

A series of smaller courtyard houses was built as part of the reconstruction of Agadir, which was destroyed by an earthquake in 1960 by the Government of Morocco. They have all the dense privacy that is so much a part of older Muslim cities.

These awards aim at nothing less than the rejuvenation of Islamic architecture. They will be presented every three years and their aim must be long term. This year's batch is a tentative selection. They reflect a dissatisfaction with the inhumanities of much modern architecture that is felt in the West as much as in the Muslim world.

While the Aga Khan is to be congratulated on his generosity and thoroughness he must be aware that good architecture grows slowly and may be out of tune with the times. His personal gift of the \$100,000 Chairman's Prize to Hassan Fathy, the 88-year-old Egyptian architect and artist, is an indication of the sort of genius the award is hoping to encourage.

Throughout his life Hassan Fathy has spurred modern architecture and committed himself to the poor. He has championed indigenous building that is economical and suited to the climate. He demonstrates clearly that a new kind of architectural education is the real answer to the search for new forms. The Aga Khan Award is a serious beginning to a long search.

Apollo Victoria

Ry Cooder by ANTONY THORNCROFT

With the Apollo Victoria a 'heaven' and a 'rockin' on Friday night Ry Cooder can no longer be pocketed as a cult figure. He is now popular and his music, too, is some of the most popular of the U.S. of the past generation. He has much commercial pop but grass-roots sound, both black and white, soul and country, rock and blues. All those oddly-coined words, such as "laid back" and "funky," actually sum up Cooder, at least in this hugely enjoyable concert.

He has been around since the mid-60s and his guitar skills brought him work on some of the best West Coast albums; now he is very much his own man, rattling through a distinctive musical tour with one of those excellent American tight bands that constantly show up the shortcomings of British rock.

In spite of his Hawaiian shirt he is not as eclectic as on some past visits, concentrating this time on soul and country with a nice bias towards songs which

show men being destroyed by women.

Ry Cooder can still be seen through a crush at the Venue at Victoria on Thursday. With his relaxed and humorous stage manner, his smooth band, of which John Hiatt is superb and the male backing-singers hit the high and low of every musical scale, his repertoire of lesser known but immediately accessible songs, Cooder is not only marvellous entertainment, he also confirms your faith in popular music.

New York City Opera

Start of the Season

by ANDREW PORTER

With the Met closed, the New York City Opera has been providing New York's opera single-handed. Houses have been good, and perhaps some Met regulars have been drifting across Lincoln Plaza to discover the place where, as the company blazons across its facade, "opera comes alive."

The City season begins with a short late-summer run of an operetta last year, Victor Herbert's *Naughty Marietta*; this year, Sigmund Romberg's *The Student Prince*. The show was written for New York, in 1924, but in idiom it is a weak, late-Viennese operetta with plentiful echoes of Johann Strauss and Lehár. It was quite grandly cast, with Jacques Trussell, then Henry Price, in the title role and Leigh Munro, then Elizabeth Hynes, as Kathie. Miss Hynes was charming. But the piece was given a common, unstylish production. It drew few houses.

While *The Student Prince* began, a *Pirates of Penzance*, put on by Joseph Papp's Public Theater, was ending its (free-admission) summer run in the lakeside open-air theatre in Central Park. The cast was unorthodox: Linda Ronstadt (who proved to have pretty and accurate coloratura) as Mabel, Rex Smith (from *Grease*) as Frederic, George Rose as Major-General Stanley, and Patricia Routledge as Ruth. The voices were amplified. The score had been arranged for a string-less band. But it was a polished and totally enjoyable show.

The opera season "proper" began with a revival of *Anna Bolena*, in which Oliva Stapp was efficient, but hardly more than that, in the title role. Susanne Marsee was a fluent Jane Seymour. There was an able coloratura bass, Samuel Ramey, for whom the coloratura passages usually cut could be restored, and an able coloratura tenor, Rockwell Blake, for whom "Vivi tu," usually omitted, was reinstated. This was perhaps the fullest *Bolena* to have been played in our day, even though the overture was omitted. (At Glyndebourne in 1965, six movements were omitted and five drastically abridged.)

But fluent singing is not enough for *Bolena*. Donizetti's dramatic operas need declamation. Some of their most famous phrases—moments, for which Ustas, Grisi, Callas were celebrated—are no more than simple recitative for actresses to bring to life. The production, created by Beverly Sills in 1973, had been restaged by Jay Lesenger. It was a poor affair, in a dreadful set with a central platform approached by three steps. Up and down the singers went, up and down, pausing at times to sit or stand on the steps. The court ladies sat while Anne Stodd; Percy grabbed the king's arm in public argument; Mr. Ramey's Henry VIII lacked majesty; and in general there was no attempt to reconcile historical plausibility, 19th-century stage convention, and the susceptibility of a modern American audience.

The sorry tale continued with Don Giovanni, a revival of John Cox's production last spring, with a new cast, except for Carol Vaness's Anna rehashed by Mr. Lesenger. Another, wretched set (by

Michael Annals) cramped the action. The production alternated between the slackly traditional and the feebly innovative. The graveyard scene was relocated in "a stonemason's yard" which made nonsense of the Commendatore's words and presented the tremendous scene at half-strength, since the atmosphere of awe and mystery, the sense of near-blasphemy, inviting supernatural retribution, had been merrily tossed away in a silly search for novelty. At the end, Giovanni was tied up and carried off by his servants. Anna calmly sat down to sing the passionate, fiery "Or sai chi l'onore."

But Miss Vaness, the next important American soprano, gave us a very fine "Non mi dir." Her *Thomson* was a strong Elvira. Samuel Ramey sang Leporello well. Justino Diaz, as in *Spoleto* years ago, was a "promising" Don Giovanni: wonderful looks and bearing, an excellent voice—everything right for the role, and somehow nothing comes of it. I have not seen the other revivals, so far *Die Fledermaus*, *Carmen*, *La Bohème*, *Il barbiere*, and *Butterfly*.

Now for the good news. A new production of Bizet's *Pêcheurs de Perles*, unstaged professionally in New York since three Met performances in 1918 (with Hempel, Caruso, and De Luca), packs the house at every performance and deserves to—not only because

it is a lovely score but also because it is well done. There are two casts. In one, Diana Soviero is a sweet and flexible Lella; in the other, Marianna Petros, is sweet and flexible and also invests the role and the music with character. Her timbre recalls the limpid passages of Callas's voice—rich yet delicate, and carrying a fascinating touch of resin. One Noddy Barry McCauley, has a duet, a simple tenor; the other, Joseph Evans is more ordinary. One Zurga, Dominic Cossa, is rough but strong; the other, David Arnold, has a cultivated baritone of precise focus, of the kind one longs to hear in French opera and so seldom does.

The Welsh edition, a restoration of Bizet's original score, was used. The *Lella*, Zurga, duet, not usually one of the highlights of *Pêcheurs*, brought the house down when Miss Petros and Mr. Arnold sang it. Calvin Simmons, making a City Opera debut, conducted with a poetic response to Bizet's solives and make much of Bizet's exquisite instrumental incursions but often persisted in a metronomic beat through passages that need rubato. He should study the De Luca recordings. Robert O'Hearn's set is simple and picturesque, with plenty of usable flat space. Cynthia Auerbach's production, simple and sensible, leaves the singers free to express themselves and make much of Bizet's music.



Samuel Ramey and Susanne Marsee

Camden Jazz Week programme

Two full-length compositions by British composers are among the highlights of the Camden Jazz Week to be held at the Round House from today to November 1.

On Wednesday the Mike Westbrook orchestra will perform Westbrook's *The Cortège*, the first part of a trilogy on the death/funeral theme of *Life/Death/Life*, based in part on the classic form of the New Orleans jazz funeral. It was

first performed at last year's Bracknell Jazz Festival.

On the following night will be the premiere of a new work commissioned by the Jazz Centre Society for the Camden Jazz Week. Impressions of Geoff Castle, and played by a ten-piece band. Also appearing the same evening will be the quartet of altoist Phil Woods.

The Week begins with the British debut of the World Saxophone Quartet. The following night sees the return to Britain of the exciting gospel group, The Stars of Faith. Also on Tuesday will be Steel and Skin, an Afro-Caribbean 11-piece.

On Friday is a strong double attraction from the U.S.A.: the Chico Freeman quartet, and the quartet of guitarist James "Blood" Ulmer.

Full details from the Jazz Centre Society, 35 Great Russell Street, WC1 (580 8532).

K.H.

TENNIS by JOHN BARRETT

Lloyd's defensive play on Open

IN A THRILLING final to the £52,000 Daihatsu Challenge Chris Evert-Lloyd, the number one seed, beat her conqueror of last year, Martina Navratilova, 6-4, 5-7, 6-3 in 2 hours and 17 minutes of high-class play. This was Mrs. Lloyd's 55th win in the 57 matches since her return to competition last May.

Miss Navratilova, a Czech who expects to win U.S. citizenship this month, was caught in the classical dilemma of a natural attacking player facing a solid ground striker on a slow court. She knew she must continue to attack and hope to volley enough winners off the rasping passes that she had to expect.

The contrast in styles is obvious on court and the two also hold opposite views about the correct course of action over the proposal to hold a separate U.S. women's tournament next August at the giant Meadowlands Centre in New Jersey, two weeks before the Centenary U.S. Open at Flushing Meadows.

As defending champion and a U.S. citizen, Mrs. Lloyd believes the women should support the traditional event. She argues

that the women are on the way to achieving their goals at Flushing Meadows, and need the status of the 100-year-old championship provides.

There is parity of prize money with the men next year. It will total \$1m; they are promised the same 128 places in the draw as the men; and the trend this year towards fairness in the scheduling of women's matches on the show courts during TV coverage can be expected to continue.

Miss Navratilova, who left Czechoslovakia in 1975, is less impressed by tradition, and cynical about the attitudes of U.S. Tennis Association officials to the women, who, she claims, are second class citizens at Flushing Meadows. She believes the greatly increased prize money, and the promise of a draw of 128, have been offered by a desperate association, alarmed at the prospect of trying to run their anniversary meeting without the leading women.

It is reported that 14 of the top 20 women have signed an undertaking to support the

Meadowlands venture, and not to enter the U.S. Open. Notable omissions from the list, apart from Mrs. Lloyd, are Tracy Austin, Virginia Wade, Kathy Jordan and Virginia Ruzici.

However, Mrs. Lloyd has said women in the Tennis Association that if the majority of the vote for a split, albeit with misgivings.

Almost certainly—as at Wimbledon in 1973, when 79 men boycotted the tournament—the association would go ahead and stage a women's tournament as part of the 1981 U.S. Open. Many of the lesser players will be tempted by the prize money.

The decision will be taken at a meeting in Washington during the Colgate Series finals on January 11. Television is central to the question. The Open is covered by CBS, and the women dislike its treatment of their matches. NBC has promised Meadowlands at least 74 hours of live time plus high-light programmes during the nine days of the tournament which would include two week-ends.

Another influence is the

activity of Capitol Sports, a promotions company, which will no longer look after the commercial side of the U.S. Open as it has done for the past five years. It reportedly expects to carry some of the Open sponsors with it to Meadowlands.

Then there are the players' business managers, who see the opportunity to sell their clients to lucrative endorsement contracts, on the basis of exclusive television exposure.

The fact that any new event will have only an empty title does not seem to worry the militant women, who seem determined to continue the development of women-only tournaments. These began in 1970 when eight leading women signed \$1 contracts with Gladys Heldman who then found the Virginia Slims cigarette makers as sponsors of the women's tour the following year.

The damage to the image of tennis as a worldwide game bringing together men and women would be serious if the Meadowlands venture takes off.

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Monday October 27 1980

Cutting where it matters

THE GOVERNMENT seems at last to be taking to heart its own injunctions about the need to re-establish control over public spending: even the rate of growth of the defence budget is now under serious attack by Treasury Ministers. But in their fervour to make up for last year's mistakes, Ministers must be careful to distinguish between the control of individual programmes and the reduction of total spending. Careful monitoring and control of public sector costs, particularly wages, is now more crucial than ever. But swingeing cuts in services and social security transfers, or further increases in public sector charges, are not the appropriate response to likely over-run public spending and borrowing which are the result of recession.

Dangers

In fact the unanimity of the opposition to public spending presents certain dangers. For there are separate macro- and micro-economic reasons for wishing to limit public spending which are apt to be confused by the general chorus of indignation about the colossal call for expenditure control over the past year.

The blame for many of the Government's present economic difficulties lies not just with its apparent inability to control total spending, but also with its failure to distinguish between the likely economic consequences of different types of spending cuts. By concentrating its public spending cuts on capital investment, rather than on wages or employment and, worse still, by classifying increases in prices and charges as "reductions in spending," the Government ensured that most of the burden of its austerity drive fell on private sector output and employment.

Investment

More serious mistakes of the same kind have been made during the past year by imposing low ceilings on nationalised industries' borrowing, while leaving their management free to offer their employees excessive pay increases and to charge their customers whatever prices are required to cover wage costs. The review of nationalised industry pricing

practices which the Prime Minister has asked the Think Tank to undertake could usefully be extended to look at the possibilities of creating a distinction within the PSBR figures between borrowing that is used to finance productive investment in revenue-earning assets and that which is simply used to bridge the gap between tax revenue and current spending on the provision of government services. It is on this gap that more public attention should be focused.

The microeconomic objections to the indiscriminate approach to public spending cuts are even more obvious. Over the past year the nation's preoccupation with general economic decline has been so great that the Government seems to have lost sight of what, for most people, is the main argument for greater control over public spending. This is the inefficiency of many parts of the public sector. Some doctrinaire Conservatives may regard blanket reductions in public sector activity as desirable in their own right. But most of the voters who called for the Government's call for spending cuts in the general election did so because they were keenly aware, from personal experience, of the waste which is to be found in many parts of the public sector.

Controls

Indeed, during the election campaign Mrs. Thatcher occasionally seemed to imply that the elimination of waste would alone be sufficient to secure large reductions in public spending within the sort of time scale which her economic strategy required. This hope was obviously unwarranted since major cost saving exercises produce results over periods of years, rather than months. Furthermore, their effectiveness depends on the maintenance of continuous control, rather than occasional bursts of frenzied activity. The Government's most important contribution to the long-term reduction of public spending would be to find ways of introducing this permanent element of cost-consciousness into many of the cosy corners of the public sector.

The problems that Russia faces

LOOK AT the world through a Kremlin window: the view may surprise you. It does not show a world cowed by an aggressive Russian colossus; it is a world where things are going wrong, full of potential dangers.

Take Afghanistan. It may not have become a "Russian Vietnam," but Soviet forces are bogged down in that inhospitable and sparse country. The entire credibility of the Soviet Union in the Third World has suffered badly as a result of the invasion.

Afghanistan has driven both China and Pakistan into closer alignment with the U.S. It has put the Soviet Union at odds with the Islamic revival. It has dealt a bad blow to Moscow's persistent attempts to depict itself as the enemy of colonialism.

Africa

Not long ago Russia, through its ally and cat's paw Cuba, was extending its influence in Africa. Angola and Mozambique appeared to be coming its way, perhaps even Zimbabwe. Further north, Ethiopia had become Moscow's ally. There has been no final result in any of these regions, but Moscow no longer is making progress. The potential for military intervention is strong: the new regimes in southern Africa are wary of linking their future to Soviet Communism.

The U.S. has acquired new bases in Somalia, in the Horn of Africa; and in Oman, in Arabia. They increase America's potential power in a contest, should it ever come about, for mastery in the Middle East. Egypt has openly thrown in its lot with the U.S. Tehran may be at loggerheads with Washington, but Iran's Islamic fundamentalism has no common denominator with Soviet Communism. In western Europe the Spanish and Italian Communist parties are far from being the vassals of Moscow that they once were. Even in eastern Europe, under the guns of Soviet forces, things have gone wrong. Moscow is puzzled about how to respond to the upsurge of independent trade unionism in Poland.

To borrow a phrase from Moscow's book, events in Poland are qualitatively different from trouble that Moscow has had elsewhere in eastern Europe since the war. The defection of Yugoslavia occurred on the fringe of the Soviet bloc; reform in Hungary has since 1956 stop-

ped short of clearly challenging the Communist Party's claim to be the voice of working people. Romania's industry never questioned Communist doctrine at all; if anything, Mr. Nicolae Ceausescu, the Romanian dictator, is more in the traditional Russian Communist mold than even the masters of the Kremlin.

Harvest

Poland is the problem that it is because of a record of fighting for its rights, and because it lies at the heart of Russia's lines of communication with East Germany, in some ways Moscow's most important ally. But also its most exposed ally. The Kremlin leaders probably need not be afraid that disquiet of the Polish kind will cross their own borders. The system is too deeply entrenched. But they cannot but be nervous about the second successive harvest of the Soviet grain. Since Stalin's day, trouble on the farm has again and again led to upheavals in the regime.

The resignation last week of the long-time Prime Minister and top economic manager, Mr. Alexei Kosygin, was due to his poor health; but it did have overtones. The appointment of a successor who was associated with the military industry, Mr. Nikolai Tikhonov, could be a pointer that the military are increasing their influence and demands, though that implies no challenge to party supremacy as such. Moreover, these problems have coincided with times when the political leadership is failing singularly to rejuvenate itself: by now everyone has noticed that Russia is ruled by old men.

Strength

Having noted the many weaknesses of the Kremlin, it is necessary at least to glance at its strengths. Militarily it may have drawn level with or even ahead of the West and it still commands great sympathies in the formerly colonial world. Badly though Russia has managed its economic affairs, the West, too, is in economic difficulties—it also has leadership problems.

We know too little to draw firm conclusions. But two things are plain: sooner or later new faces, quite possibly with new policies, must take over from the old guard; and Russia's masters, both the old and the new, may feel more insecure, and therefore be more unpredictable than has been believed.

Sir Geoffrey in the hot seat

Peter Riddell examines the summer monetary explosion and the options for changes in the present system on the day Sir Geoffrey Howe, the Chancellor, is questioned by the all-party Treasury and Civil Service Committee of which Mr. Edward du Cann is chairman.



Glyn Gwinnett/Treasury, Humphries

SIR GEOFFREY HOWE this morning probably feels rather like a nervous examination candidate facing a stiff oral test and knowing that his written work is not up to scratch.

Later today he is due to appear before the Treasury and Civil Service Committee of the Commons to account for the monetary mess of the summer. He faces an uphill task. Many of the MPs are highly critical to start with and the monetary record under examination is hardly glittering. Sir Geoffrey is also unlikely to be able to provide many clues about what will happen from now since the decisions have not yet been taken.

His first problem will be to explain his cautiously optimistic remarks to the committee at the end of July. He told the MPs then that, after taking account of all aspects, "the money supply was probably under control." Since that date official figures have revealed an 8 per cent jump in July and August in sterling M3, which includes cash and bank current and deposit accounts.

The result has been a furious inquisition personally conducted by the Prime Minister. All and sundry have been taken to task and distinguished domestic and foreign gurus have been summoned to seminars and meetings. This has been accompanied by a good deal of recrimination within what are often euphemistically (and now rather ironically) known as the authorities—the Treasury and the Bank of England.

Behind the Whitehall battle are issues of key importance—the future of the present over-

The recession has caused more private borrowing

draft system, the way in which interest rates are fixed, and possible changes in the methods of financing the Government's borrowing needs.

The Government's commitment to its monetarist approach is not, however, in question. There is no serious challenge to the view that controlling the rate of growth of the money supply is the key to reducing the rate of price inflation in the medium term.

The issue is how, and even whether, monetary control can be achieved. The problem is that the Government has been trying to squeeze a quart into a pint pot without having control of either the quart or the pot. The result has, not surprisingly, been more than a little leakage.

Until now the main methods for trying to keep the rate of growth of sterling M3 within the target range of 7 to 11 per cent annual increase have been indirect. They have been via changes in interest rates and in the level of public sector borrowing. The aim has been to set a level of interest rates which will allow the Government to sell sufficient gilt-edged stock to finance public sector borrowing without expanding the money supply. Similarly, there has been the hope that changes in the level of short-term interest rates will influence the private sector's demand for bank credit.

The world is not, however, so

uncomplicated. For example, public sector borrowing has not only been much higher than expected—at least £15bn above forecast levels in both the last and current financial years—but it has also fluctuated sharply.

This is partly because of a bunching of disposals of public sector assets and of tax payments towards the end of the financial year. There was, for example, a swing of £5bn between the first and second quarters of this year.

Even if normal seasonal variations are excluded the change in borrowing was still £4½bn and this does not make for a smooth pattern of monetary growth.

Officials directly concerned with funding would argue that asset sales, partly responsible for these swings, do not really help to reduce borrowing since the assets compete with gilts for institutional funds.

At the same time, the sharp rise in interest rates has only had a limited impact on the growth of bank lending. This is partly because the deepening recession and the associated profits and liquidity squeeze has left companies with no choice but to borrow more from their banks. Such distress borrowing has become unavoidable. Moreover, the increased interest payments have themselves had to be borrowed and have been reflected in bank lending.

These pressures have put serious strains on the financial system. The first result has been upward pressure on interest rates. For the whole of this year the Bank of England has been pumping money into the banking system to prevent interest rates rocketing sky-high. In mid-September a total of £2½bn of such "temporary" assistance was outstanding. Indeed, one of Mrs. Thatcher's favourite jibes in the current monetary discussion is to remark that the Bank of England is now the lender-of-last-resort, not just the traditional lender-of-last-resort.

The second result has been that monetary growth has been well above the upper end of the official target range for much of the past year—at an annual rate of at least 15 to 16 per cent, compared with a top limit of 11 per cent.

On top of these pressures came the problems caused by the corset and its removal in mid-June. The corset restricted the rate of growth of interest-bearing liabilities (a large part of the banks'

deposits) and thus indirectly sought to restrict the expansion of their operations.

In practice, the corset encouraged massive avoidance. The banks switched operations through uncontrolled channels. This had the effect of making the published monetary figures look better and understating the underlying growth. It was always recognised that when the corset was removed banks would switch some of their operations back into conventional channels. This would inflate the published rate of monetary growth while making little difference to the underlying trend.

The scale of the post-corset adjustment was, however, substantially underestimated. The consequent 8 per cent jump in the money supply was therefore a profound shock. Between a half and two-thirds of the rise could be explained by the unwinding of the corset, but, equally worrying, was the evidence of an excessive rate of underlying monetary growth.

This episode has been interpreted in several ways. The Bank of England view, expressed by Mr. Gordon Richardson, the Governor, in his Mansion House speech earlier this month, was that the monetary performance and prospects are not as bad as is commonly thought in view of the demands put on the system. He said the swings in monetary growth largely reflected swings in public sector borrowing (a not so subtle nudge to Whitehall).

But, he said, public borrowing should now fall, inflation was past its peak and there were

tentative signs of a slowdown in the private sector demand for bank credit. Consequently, after allowing for the corset distortions, the rise in sterling M3 over the whole of the target period to next April might turn out to be much less than has been generally supposed. This is also the hope in Whitehall.

On a longer-term basis Mr. Richardson noted the "sheer erratic variability" of the influences on sterling M3. His conclusion was that undue importance should not be placed on short-term developments in any single monetary aggregate. Instead, it is necessary to take into account other monetary aggregates and the real economy (profits, jobs and output). Taking account of these signs, he concluded that monetary policy had therefore been restrictive. Indeed the Bank has become increasingly concerned about the extent of the squeeze on the real economy caused mainly by the strength of sterling.

Ministers appear to be more impatient about the present monetary system. In his Mansion House speech, Sir Geoffrey said that the frequent use of the corset between 1973 and 1979 suggested "at least that present arrangements may not be adequate, even over the medium term, for the fulfilment of a policy which rests upon the priority of meeting monetary targets and reducing the rate of monetary growth."

Attention has focused particularly on whether some of the recent fluctuations in monetary growth could be avoided

abruptly on the real economy instead of being reflected in temporary variations in monetary growth.

The final outcome of the current review is still uncertain but some broad conclusions have become clear in the past two or three weeks. First, Mrs. Thatcher's anger about the monetary mess of the summer and her direct intervention make it likely that some changes will occur. Too much has been said to permit a continuation of the status quo.

Secondly, everybody agrees that direct quantitative controls on deposits, such as the corset or the lending ceilings of the 1960s, are not the answer since they create distortions.

Thirdly, the objective should be a more market-determined system of fixing interest rates. This view has caused wry smiles among some practitioners who remember that until May 1978 MLR was, in theory, fixed in line with market rates, but in practice this freedom was often overridden by the Government. But there is still a desire, if possible, to make changes in MLR less political and more responsive to market forces.

Fourth, a switch in the immediate future to a fully-fledged monetary base system seems unlikely because of the extent of the upheavals involved. But some moves in that direction are possible, perhaps involving an extension from the clearers to all banks of the requirement to maintain a minimum level of cash balances at the Bank. This was suggested in the consultative Green Paper last March which also called for the end of the increasingly cumbersome reserve assets ratio

Recent pressures a test for any framework

which requires banks to hold specified short-term financial holdings as a minimum percentage of liabilities.

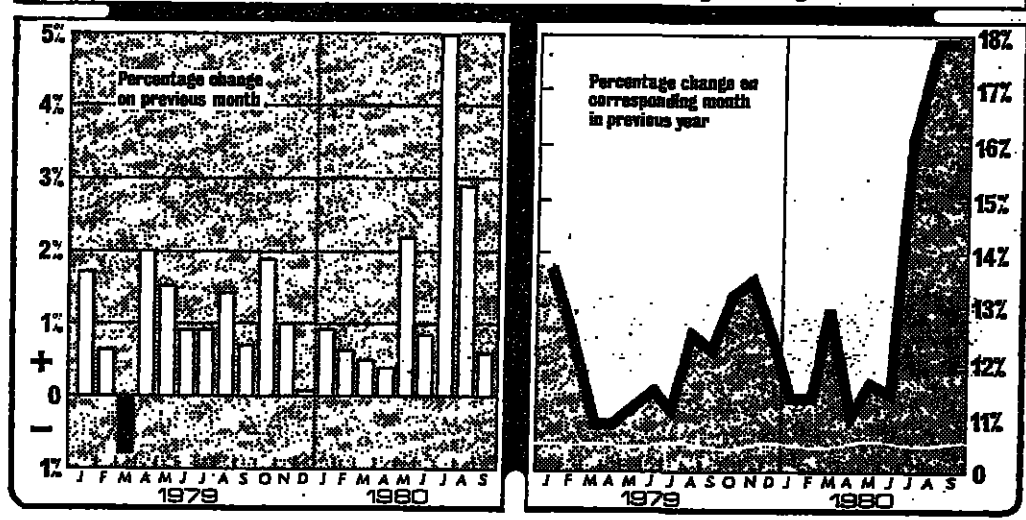
Fifth, and possibly most significant, there is general agreement that the public sector should be less reliant than now on sales of gilt-edged stock to financial institutions. The intention to expand direct fund raising from the personal sector has already been signalled by the enlarged issue of inflation-proofed "granny bonds" and by the British National Oil Corporation's revenue bonds.

Sixth, and finally, any reduction in sales of gilts will, it is hoped, reduce yields on long-term bonds and make funds available to attract industry to return to the long-term capital market via issues of debentures and loan stocks. Such issues should reduce industry's dependence on the banks for external finance and help to limit the growth of the money supply.

Yet whatever the many deficiencies of the present system and the scope for improvement, any framework of monetary control would probably have found it difficult to cope with the pressures of the last 18 months.

Monetary control may look much easier when, or if, the inflation rate is reduced and public sector borrowing is brought under control. Sir Geoffrey is likely to have a demanding two hours this afternoon.

STERLING M3: seasonally adjusted



Branco Radovic

MEN AND MATTERS

Business is blooming

Candy, Pace, Ogden Nash may be dandy and liquor quicker. But orchids are exotic, the up-and-coming soft commodity.

A little way outside the normal run of crops handled by Sime Darby, these delicate blooms are the latest product of the Orient to join the prosaic palm oil, rubber and cocoa more commonly listed among the Malaysian conglomerate's shipments to Britain.

That Malaysia's biggest company, turning over £500m a year, should concern itself with exporting single flowers is intriguing in itself. That it should refuse to disclose figures and ambitions—"There's a lot of competition"—is distinctly rum.

Its sole customer, Marks and Spencer, is less secretive but not much more helpful. "We are selling more than a ton a week," I was told. "I don't know how you break that down, but it's an awful lot of orchids." And at 99p each retail, it sounds like a not-inconsiderable amount of turnover.

Marks and Spencer's recent activities in the Far East, it seems, go far beyond looking around for export-minded growers of monocotyledons. Eight weeks ago a Bangkok businessman opened his first store selling St. Michael's brand British-made clothing. Now he has three shops and plans for another two.

Double dealing

Fact and fiction are now becoming legally entangled in Dallas, scene of the popular televised soap opera.

While small-screen addicts throughout the world wait impatiently for the next series to find out who shot the villainous

J. R. Ewing, the producers of the Texas family saga are training their legal eagle, Loral International, in Britain, and by appointing two Britons to its board. Bernard Schwartz is leaving little to chance in his bid to have his Bronx-based Loral Corporation win the contract for electronic surveillance and missile bamboozling hardware in UK's updated Jaguars.

Schwartz has already staked a strong claim for the contract by agreeing that should the contract fall his way, Rascal will manufacture his spy-natured Rapoport system in the UK. Now, with MP Kenneth Warren and European MP Sir Fred Warner in his stable, he has two highly influential allies.

Warner, the diplomat, is a former NATO Minister and ambassador to the UN, and sits on the board at Guinness Peat. Warren, the technocrat, started out as a lowly de Havilland apprentice. Working his way through Smiths Aircraft Instruments, Military Flight Systems and Elliott Automation (and dubbed the "silicon chip" of the

Tory Party), he is currently serving an apprenticeship of a different kind, as Parliamentary private secretary to Industry Minister Sir Keith Joseph.

Bad tidings

County Commissioner Thomas Flowers of Hoopers Island, Maryland, is not a man much given to hypocrisy. A firm opponent of the \$3.5m project to build a bridge at Chesapeake Bay, he never made any secret of his view that the structure is a waste of public money. Far more urgent, he says, is spending on erosion control.

And at the opening ceremony the other day he took the opportunity to spread his opinions nationwide.

"We are gathered here," he announced to the assembled dignitaries and Press, "to dedicate a bridge that is a monument to man's waste, a monument to governmental interference and inefficiency. Our great Creator, and Father," he appealed, "bless this bridge and those who will use this structure to meet their needs, knowing that wind and wave and tide are daily at work destroying that which has been built."

Plugging the gap

Bravely chasing around the country trying to clear up the mess left by British Steel's closures, the mop-and-bucket brigade of the corporation's job creation subsidiary, BSC (Industry) claimed another success at the weekend.

In concert with the Scottish Development Agency, they have lured a leading U.S. manufacturer of meat processing machinery 6,000 miles from California to the bleak landscape of the Garmock Valley in Ayr-

shire. Bringing prospects for up to 150 jobs in the first three years, Butcher Boy (UK), a subsidiary of Laser Manufacturing, will help fill the gap left when British Steel shut its open-cast melting shops, threw 700 out of work and raised unemployment in the valley to 11.5 per cent.

The job creators found William Lacer in Los Angeles, fretting over the lack of capacity in his existing facilities, high transport costs to his European markets and a dire shortage of skilled labour. In Garmock he was provided with a 20,000 sq. ft. advance factory, handy access to the Clyde container port at Greenock, and all the metal-working skills he could hope for.

Although the Irish, tempted by their extravagant tax inducements, "finance," he said, "was not a major consideration." What he wanted was the ability to produce the company's products to its U.S. standards and improved delivery times. BSC (Industry) will be helping by supplying Butcher Boy with the equipment to get started on lease, while its parent can be relied on to ensure that it has all the steel it needs.

Kruger coup

One group of clearing bankers will, I hear, spend this morning glumly surveying a large hole in its pocket following a major Krugerrand coup late last week. Charterhouse Japan, which, while its face may be red, stresses that its financial affairs are unaffected, was the unwitting intermediary. It handed over 500 of the one-ounce coins—worth £150,000—on the strength of what proved to be a forged bank draft.

If it is any comfort to those on the receiving end, the price of Krugerrands fell £10 between the time of the alleged crime and Friday's close.

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مكتسبات العمل

1

West Germany

Helmut Schmidt—Europe's most influential leader—is at the start of what may be his last full legislative period as Chancellor. He has never pushed his country to the forefront of international politics, but some of his supporters think the Federal Republic should play a stronger role in the 80s both within and outside the European Community.

Election confirms a stable middle road

By Jonathan Carr, Bonn Correspondent

THE WEST GERMAN General Election this month was important for two main reasons. It consolidated Chancellor Helmut Schmidt's position as the most influential leader in Europe, and it underlined the attachment of his country to a middle road in politics. What are the international implications—and lessons?

For one thing, Herr Schmidt has gained more parliamentary room for manoeuvre in foreign and domestic policy. In the old Bundestag (lower house) his Social Democrat Party (SPD) and its liberal ally, the Free Democrats (FDP), had a majority of only 10 seats over the Conservative opposition. The Chancellor and his allies were constantly looking over their shoulders at an SPD Left wing which could, and sometimes did, endanger that slim majority.

In the new Bundestag, which holds its first meeting next month, the SPD-FDP will have a margin of 45 seats. It is true that most of the gain is due to the particular electoral boost given to the Liberals, and that part of the SPD is grumbling that the Chancellor ran too "academic" a campaign. Herr Schmidt is losing no sleep over these charges: without him the SPD would

almost certainly have won markedly less support—and might not even still be in government. His overall Bundestag majority is more secure than it was, and that is the main thing.

What might Herr Schmidt do with this new-found albeit relative freedom? He has been Head of Government now for more than six years, which is longer than any federal chancellor apart from the first one, Dr. Konrad Adenauer, who held office from 1949 to 1963. The election victory means that, barring the unexpected (such as desertion of the FDP from the coalition), Herr Schmidt will be in power until autumn 1984, when he will be aged 65. True, Dr. Adenauer was still in office until well into his 80s, but the stress of the Chancellorship is now much greater than it used to be.

In other words, Herr Schmidt is probably at the start of his last full legislative period as Government leader. Many suggest that if he is to play a more active role as initiator and catalyst in European affairs, then he will never be in a stronger position to do so than he is now. Further, it is argued, the Soviet Union has isolated itself internationally through its military intervention in Afghanistan, and the

U.S. has not played the consistent role its allies hoped for. According to this reasoning, there is thus both a leadership vacuum in the West and a need to organise greater co-operation between the medium-sized states on the European continent—in both East and West. Could not the Federal Republic under Herr Schmidt take on this task in the 1980s?

One counter-argument is that Herr Schmidt has never been keen to see his country pushing itself to the forefront in international politics. He knows that the Federal Republic's economic and financial success often aroused envy which, in Europe, was mingled with memories of the Nazi era.

Intermittent

He used to say that if any real leadership role were to emerge in Europe, then it belonged to the European Council, the gathering of heads of state or government of the European Community (EEC) countries.

But the European Council has only intermittently been able to function in the way both Paris and Bonn hoped for. And France—despite President Charles de Gaulle's grandiose vision of a Europe "from the Atlantic to the Urals"—is

neither as important to the Russians nor as close to the U.S. as is West Germany.

There remains the concept of a Franco-German leadership tandem and that has worked several times: for example, over introduction of the European Monetary System (EMS). Further, President Valéry Giscard d'Estaing's talks with the Soviet leader, Mr. Leonid Brezhnev, in Warsaw this summer helped break the ice for Herr Schmidt's own Kremlin discussions shortly afterwards. (It is not true that Herr Schmidt was put out because President Giscard only briefed him at a late stage about the aim of the Warsaw talks.) It transpires that the President was himself not certain until the last moment that the talks with Mr. Brezhnev would actually be held—despite press reports from Warsaw indicating the discussions were definitely "on".

But in the end it was Herr Schmidt who achieved the breakthrough prodding the two superpowers to negotiate on the problem of intermediate-range nuclear missiles. It is hard to imagine a German Chancellor doing that a decade ago—and in that respect alone Herr Schmidt has assumed (willingly or not) a special responsibility.

There are other obstacles—foreign and domestic—hindering West Germany's ability to influence events. To the East, the labour unrest in Poland has not only caused Herr Schmidt to lose in Mr. Edward Giersek a leader he admired and trusted above others in the COMECON countries, it has also worried East Germany enough to take steps to restrict visits from the West—measures which have brought new tension between Bonn and East Berlin.

To the West, major new political initiatives in the EEC depend first on the resolution next year of budgetary and agricultural problems of hair-raising complexity. Hopes that the EEC might be able to make a firm contribution to reducing Arab-Israeli tensions have not so far been fulfilled, and Bonn has looked on helplessly at the Iran-Iraq conflict, painfully aware of its almost complete dependence on imports for its oil.

Further, it is true that West Germany was able to play a somewhat more active political role in the last year or two because of its growing economic power. Some might think that power is now in decline to judge from the large current account deficit this year (probably about DM 30bn or 2 per cent of GNP), the smaller

than usual trade surplus, the fierce domestic debate over public sector borrowing and the signs that the Deutsche Mark is not the high-flying currency it used to be.

It would be foolish to dismiss these points out of hand, but it would also be wrong to take only a short-term view. It is true that West Germany is bearing a particularly large share of the total payments deficit of the Western industrialised countries: the mirror image of part of the huge surpluses of the oil-producing states. It could even be seen as a sign of economic strength that the German deficit has reached its high level without still louder domestic cries for import controls.

Be that as it may, the German current account deficit is likely to become smaller next year, the Deutsche Mark to strengthen and the inflation rate to remain well below that of almost all other countries. It would be highly premature to conclude that West Germany is going to be less competitive economically in this decade than in the last. There are even signs that the opposite will be true.

Further, the difficulties in "ostpolitik" are not the first—and it is safe to suppose

that they will not be the last. They do not of themselves prove that the whole policy was misconceived, nor that the basis of mutual advantage on which it was founded no longer exists. Much the same goes for developments within the EEC, where a "crisis" has emerged times without number before, only to be overcome because the consequences for member states of failing to agree were seen to be worse than the cost of compromise.

Statesmanship

In both cases—east and west—West Germany is relatively better placed than any other single state to influence events in the way it desires, but it will need statesmanship of a very high order. Bismarck, that master of balancing power politics, would surely have revelled in the difficulties. It is worth noting that Herr Schmidt takes Bismarck as something of a model—in foreign affairs, one hastens to say, not in domestic politics.

That point leads to a further question. Is West Germany's domestic political stability sufficiently firm to underpin a broader international leadership role?

A few years ago there could still have been legitimate

doubts. Not that the Federal Republic ever matched De Gaulle's uneasy vision of Germany as a "sublime but glaucous sea where the fisherman's net hauls up monsters and treasures." On the contrary, it looked like a model Western democracy: with a mixture of direct election and proportional representation, devolution of government power, a responsible trade union organisation, an independent central bank and judiciary, and so on.

The most interesting lesson from this recent election result, and the course of the preceding campaign, is not simply that the Federal Republic has a voting system which favours coalition but which keeps splinter parties out of the Bundestag. That has always been true. More important is that after over 30 years the West Germans seem to have found a sense of tradition of their own.

That point brings this article back to where it began. Herr Schmidt's international influence is extensive not least because of his country's domestic stability, and that stability has been furthered by competent leadership of the Centre. No national political model can be transposed unchanged—but surely West Germany's experience has lessons for other countries.

CONTENTS

Politics	II	Dr. Wilfried Gurt	X
The economy	III	The Bundesbank	XI
The EEC	IV	Stock market	XI
Defence	IV	Mechanical engineering	XII
Foreign policy	V	Electronics	XII
Foreign labour	VI	Chemicals	XIII
Unions	VI	Motor industry	XIII
Technology	VII	Steel	XIV
Energy	VIII	Aerospace	XV
Gas	VIII	Agriculture	XV
State aid	IX	Personalities	XVI and XVII
Competition	IX	The arts	XVIII
Banking	X	Broadcasting	XVIII

COMPARATIVE STATISTICS 1979

	Area '000 sq km	Population millions	Hourly earnings* DM	Inflation rate† %	Gross National Product Share as % of industrialised countries DMbn	Exports DMbn as % of GNP	Imports DMbn as % of GNP	Monetary Reserves‡ DMbn
W. Germany	249	61	21.30	+5.4	11.1	22.6	21.0	98.3
France	547	54	15.40	+11.8	1,039	8.3	186.1	36.9
Britain	244	56	10.20	+17.2	717	5.7	167.1	35.8
U.S.	9,363	220	16.90	+13.3	4,420	35.2	333.2	34.5

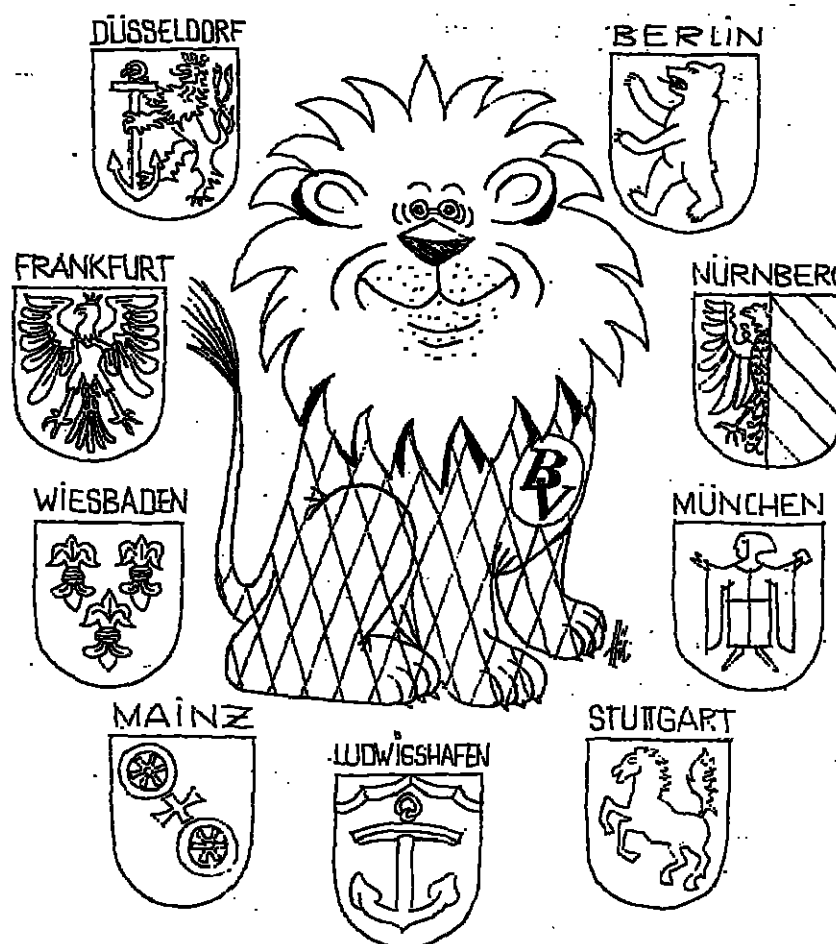
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WEST GERMANY II

Present victory may lead to future divisions

POLITICS

ROGER BOYES

BLOOD, sweat and tears characterised the October General Election campaign in Germany which returned Chancellor Helmut Schmidt to power and which torpedoed Herr Franz Josef Strauss's chances of ever becoming the country's leader.

The sweat glistened on the brows of the Free Democrats, the small Liberal Coalition partner of Chancellor Schmidt's Social Democrats, who claimed to be fighting for their very existence. After a strenuous campaign, the FDP actually won 10.5 per cent of the vote—their best result since 1961 and well over the 5 per cent minimum needed for parliamentary representation. For them the sweat has paid off, for they have returned to the Coalition with their bargaining power greatly strengthened in relation to the SPD which captured only 42.9 per cent of the vote—that is scarcely more than 0.3 per cent more than in the 1976 elections. By contrast, the FDP gained 2.7 per cent on the 1976 result.

The tears, some crocodile and some real, were being shed and repressed at the headquarters of the Christian Democratic Union, the Opposition party that managed only 44.5 per cent of the vote—that is, over 4 per cent down on its 1976 result and its worst result for 30 years. To some sections of the party, defeat has one redeeming feature. It has sharply reduced the influence of Herr Strauss, the Bavarian premier, on the running of the party.

Herr Strauss for some two decades had nurtured ambitions of being Chancellor but was unable to win over the party from his strong but narrow Bavarian power base. Eventually, after threatening to with-



Chancellor Schmidt and Foreign Minister Hans-Dietrich Genscher in happy mood after their election victory

draw the support of the Bavarian Christian Social Union Party from the CDU, it was decided last year that he should be the official opposition challenger to Chancellor Schmidt. His chances were never great but a series of tactical errors and his inability to rally the whole of the opposition behind him made for almost inevitable defeat.

The blood was real enough, creating a shocking and grisly coda to a dissonant election campaign. A bomb explosion at Munich's Oktoberfest beer festival killed 13 people and injured over 200—the worst terrorist attack that post-war Germany has known. Extreme Right-wingers are believed to have been responsible. Herr Strauss, as Bavarian Premier, interrupted his electioneering to visit the scene of the disaster. Partly out of anger, he reacted in precisely the wrong way. He thrust the explosion into the election campaign, accusing Herr Gerhart Baum, the Federal Interior Minister, of being indirectly responsible for such terrorist activity—he was soft on terrorists and had destroyed the morale of the police, Herr Strauss said.

It was precisely the wrong thing to say so soon after the tragedy and, coming only a week before the elections, it must have helped to persuade a considerable number of hovering Christian Democratic supporters to stay at home rather than to vote for him.

Uncontrolled

The outburst, the Coalition parties were quick to point out, was typical of the "unpredictable and uncontrolled" responses of Herr Strauss when under stress. How could he be allowed to take over the charge of the country? That was at any rate the main tenor of the SPD's campaign which centred on the slogan "Stop Strauss." The slogan, it emerges from post election analyses, helped to mobilise an unusually high proportion of the 3.6m first-time voters, many of whom were SPD supporters.

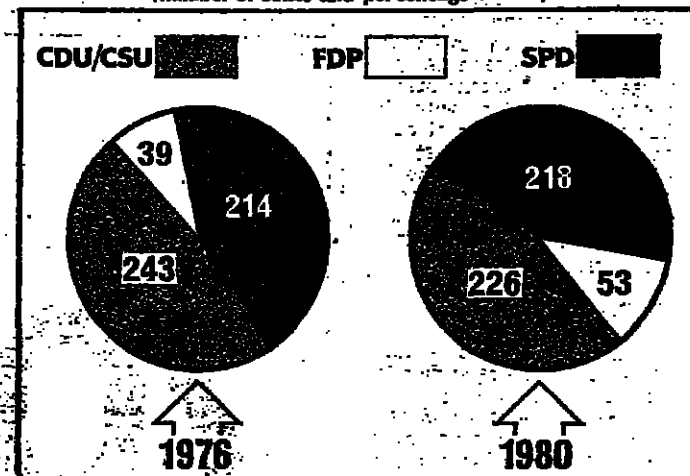
But at the same time some 500,000 SPD voters—concerned at the polarisation of the campaign and about the Left-wing of the SPD—drifted to the FDP. This has become known as the "Schmidt-Genscher" factor—many voters who simply wanted a continuation of the Government of the centre split their votes (Germans have two votes) between the two parties.

The return of Herr Schmidt and Herr Hans Dietrich Genscher, the Foreign Minister and FDP chairman, means that Bonn's foreign policy will essentially continue on the same lines as it has for the past four years. Dialogue with Eastern Europe and Moscow will still play an important role, the need for strategic arms talks on medium-range weaponry will still be a foreign policy priority, the strong relationship with France remains unshaken (always given that President Valéry Giscard d'Estaing is re-elected next year) and Germany is as dependent as ever on the U.S. nuclear umbrella. If anything, the Chancellor has won a little more flexibility in his foreign policy dealings—at a time when other major countries are either frozen in election campaigns themselves or have stumbled against the boundaries of their power.

But the shift towards the FDP in the current complexion of the Coalition may make for difficulties on the domestic front. Already at the end of the last legislative period there were signs that the reservoir of common interest between the two parties was beginning to dry up and certainly that inter-party communication was poor. On at least two occasions, the Coalition lost important bills last summer because no last-minute agreement could be reached between the SPD and FDP.

The new Parliament will, of course, given the Coalition considerable impetus which will help, at least at first, to smooth

Election results for the main parties (Number of seats and percentage of vote)



over serious differences. Herr Genscher has already moved to defuse one potential source of conflict by asserting that he will not be demanding a new Ministerial portfolio for his party. The FDP already has four important Cabinet posts: Herr Genscher at the Foreign Ministry, Count Otto Lambsdorff at the Economics Ministry, Herr Baum at the Interior Ministry and Herr Josef Erdt at Agriculture.

Nonetheless, the following issues are likely to prove disruptive to the coalition in the coming legislative period.

● Workers co-determination in the steel industry. The SPD would like to introduce a special Bill guaranteeing the maintenance of strict capital-labour parity in the Boardroom of the Mannesmann-steel and engineering concern. Mannesmann had been hoping to escape the strict parity regulations by merging its pipe and steel divisions. The FDP opposes a special law, argues that "a company has the right to restructure and has warned the SPD against clubbing together with parts of the CDU opposition to push through the law. The situation may be defused if the Metal Workers' Union and Mannesmann can reach a compromise agreement over the next six weeks.

● How to save Government money. The theme of State indebtedness was made into one of the few effective election issues by the CDU and the Coalition is confronted with the problem in its early months of rule of how to save money in the drafting of the 1981 budget. The SPD favours, among other things, cutting subsidies to farmers (an FDP Ministry) while the FDP would like the Research Ministry (in SPD hands) to pare some of its future investment plans.

● The Coalition parties also have to agree on the delicate issue of old age pension increases. The SPD favours a use in pensions linked to the increase in gross salaries (as do the Christian Democrats) while the FDP backs pensions linked to net salaries.

Switch

These issues will only become critical for the Coalition if the SPD decides to vote with the Christian Democrats and thus stamped their junior partner. This question seems to be the only one at present that could persuade the FDP to abandon ship before the next elections in 1984. On the whole it is too dangerous for a small party like the FDP to switch from a successful government and throw in its lot with the Christian Democrats.

Nonetheless, the centrepiece of CDU strategy in the wake of Herr Strauss's departure appears to have become so attractive to the Liberal Free Democrats that they could decide to change sides. There are several reasons for this. In the first place, it is almost impossible for the CDU-CSU to oust the PD-FDP from power without a mammoth swing in its favour. Even in 1976 when the CDU recorded its best result since the days of Konrad Adenauer—48.6 per cent of the vote—it was still two clear

percentage points away from victory.

Second, it is evident that portions of the FDP programme would fit in quite happily with that of the CDU. Count Lambsdorff's determined market-orientated economic policy is quite sympathetic to most sections of the CDU (indeed some members of the CDU are actually to the Left of Count Lambsdorff). Should the FDP fall increasingly under the wing of Count Lambsdorff and away from the more Liberal activist line of Herr Baum, then a switch of partners could become a logical possibility.

Finally, now that Herr Strauss, Right-winger, has edged off the stage and returned to Bavaria, the strong Liberal Conservative faction within the CDU will clearly have its day. The main candidates to become next opposition challenger to Chancellor Schmidt are: ● Dr. Ernst Albrecht, Premier of Lower Saxony. A gifted provincial politician who opposed Herr Strauss for the Chancellorship candidate for next year. He faces State Elections in 1982 and will have to focus on winning those before declaring himself a contender again. ● His talented Finance Minister, Herr Walther Leisler Kiep, is now active in Bonn and this may work to the benefit of his former chief. Dr. Kohl had backed Dr. Albrecht's Chancellor bid to be Chancellor-candidate of the CDU.

● Dr. Gerhard Stoltenberg, Premier of Schleswig-Holstein. Closely identified with Herr Strauss during this summer's Election campaign, indeed he would have been Vice-Chancellor and Finance Minister under a Strauss Government, he too faces a State Election in 1982 and it is by no means certain that he will win. If he does, then he may receive the backing of Herr Strauss's Christian Social Union in the race to be Chancellor-candidate. Herr Stoltenberg is a North German Protestant and would probably need a bridging element to the South German Catholics—the explicit support of Herr Lothar Spaeth, Premier of Baden Württemberg, for example—before being able to integrate the CDU.

But despite the bevy of ambitious regional chieftains anxious to tilt at the Chancellor, the CDU faces an uphill task in trying to upset the Coalition. For one thing, it is not clear that they have exorcised Herr Strauss for once and for all. Should he revive his plan to split the CDU from the CSU, the Opposition would be in deep trouble yet again.

But much can change in four years and all votes of confidence for the SPD-FDP Coalition seem to be based on the premise that Chancellor Schmidt will carry on for ever and ever. Would even a moderate successor to Herr Schmidt—Herr Hans-Joachim Vogel, the Justice Minister, for example, or Herr Hans Apel, the Defence Minister—be able to keep the Coalition alive? What will the Free Democrats do if the Left-wing of the SPD become more nifty and imponderable left in a political system that prides itself on its predictability? They, at least, will ensure that the German political scene has to be watched carefully in the years to come.

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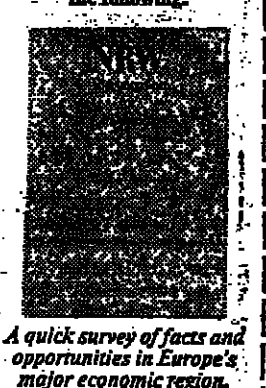
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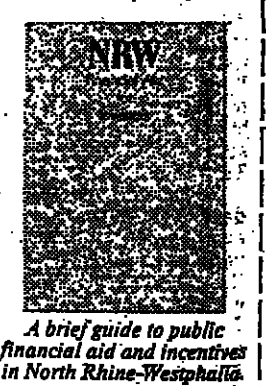
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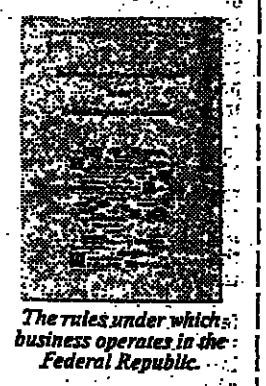
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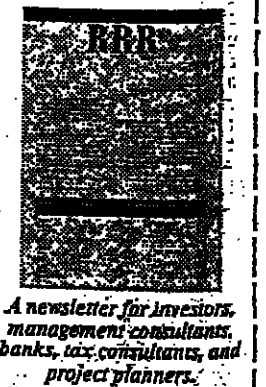
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JONATHAN CARR

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WEST GERMANY IV

Financial problems loom large over prospects

THE EEC

JONATHAN CARR

IT IS sadly appropriate that a table of budgetary receipts and expenditure is being used to illustrate this survey of West Germany's policy towards the European Community. It would be much more pleasant to report that the financial aspect was of secondary importance and that major political initiatives were in prospect.

How nice it would be if Bonn were ready to brush the thick layer of dust from its copy of the Tindemans report on European union, or even to throw its weight behind the EEC reform proposals made by the so-called "three wise men" (called into action at the initiative of the French President, no less), but alas, most of the current evidence suggests the contrary. Money is at the heart of the matter.

Chancellor Helmut Schmidt's attitude to the identity of a new President of the European Commission, to succeed Mr. Roy Jenkins, is significant in itself. At one time he was toying with the idea that the Italian Treasury Minister, Signor Filippo Pandolfi, might be the man. When domestic Italian politics seemed to preclude this choice, he raised the name of the former Dutch Finance Minister, Mr. Wim Duisenberg. Not that he is unaware about the final appointment of Luxembourg's Mr. Jacques Forys, but the trend of his thinking was clear enough: financial problems were going to be uppermost and it would be wise to have a man as Commission President who had knowledge and practical experience of the field.

Ideal

And what, it may be asked, about Schmidt's view that ideally every member of the Commission should be capable of holding a cabinet post in his home country? Might that not make for a singular clash of strong wills when tricky financial issues, above all, were discussed? Perhaps so. At any rate Herr Schmidt has abandoned this view of an ideal commission in favour of one in which one outstanding figure heads an efficient team—no more but, it is hoped, no less.

No member state doubts that in 1981 the EEC is heading for one of its most difficult periods—one hesitates to use the word "crisis" since it has become devalued by its constant repetition in the context of the Community. The issues of the EEC Budget, reform of the Common

Agriculture Policy (CAP) and further enlargement of the Community (to include Spain and Portugal) are almost inextricably intertwined. Bonn knows very well what it wants on the issues of budget and enlargement, but is not yet certain how far to aim for change in the CAP (apart from supporting measures to cut surplus production—an aim to which most European politicians have paid lip service for years while the surpluses have grown).

The Government has made clear that it wants a reformed EEC financial system "which does not one-sidedly place burdens on just a few member states while others, which are essentially no worse off, receive large net payments from the community."

It is not hard to see who Bonn has in mind. The accompanying table shows the expected net contributions to the Budget next year. The first column shows the figures as they would have been had there been no agreement on Britain's EEC Budget problem last summer. The second column shows the position following that agreement.

There are three points to make. First, the net contribution of West Germany has markedly increased while that of Britain has declined (although it remains fairly high). Second, France has moved from being a marginal net recipient to being a fairly big net contributor. Third, four countries fall within the Bonn definition of being "economically no worse off" while being large net recipients from the EEC budget. The Benelux states and Denmark. Those four thus have some cause to be shaking in their shoes. They could face an "unholy alliance" of the EEC's three biggest member states, all net contributors and all discontent.

Is such an alliance of the "big three" really on the cards? True, Herr Schmidt used to support the idea of a "triangle of power"—Bonn, Paris, London—on the grounds that bilateral Franco-German co-operation, though wholly desirable in itself, did not bring the optimal degree of stability in Europe. But that was before his growing disenchantment with Britain's economic policies and his gradual conviction that Britain wanted no part of such a European arrangement. Of course, if Prime Minister Mrs. Margaret Thatcher gave firm signs that Britain now felt otherwise and was prepared to tailor its policies accordingly, that would be a different matter, but Herr Schmidt is inclined to be sceptical.

How, then, does West Germany see the Budget problem being solved? One idea has

about it the dangerous imminence of an unexploded bomb. Perhaps, suggests Bonn, the principle of an upper limit for the net contribution of a member state should be extended thus to include Germany (as well as Britain), and perhaps a similar limit should be imposed on the net amount of any member state can receive?

That would be one way of limiting the extent to which West Germany acted as "paymaster of Europe." At the same time the Government—at least the Chancellor, the Finance Ministry and Economics Ministry—insists, often with frightening intensity, that the legal ceiling placed on the amount of Value Added Tax (VAT) the EEC can obtain from the member states to

THE EEC BUDGET-1981 (Dm. m.)

Column "A" shows position as it would have been without the budget settlement with Britain this summer; column "B" shows how the position changed because of the settlement.			Net contributions (minus) and receipts (plus).
	A	B	
W. Germany	-3,414	-4,965	
Britain	-5,371	-1,695	
France	+ 25	- 891	
Italy	+2,159	+1,619	
Ireland	+1,767	+1,729	
Belgium	+1,596	+1,313	
Holland	+1,406	+1,237	
Luxembourg	+ 803	+ 796	
Denmark	+1,406	+1,370	

Source: West German Finance Minister

Source: West German Finance Ministry

finance its Budget must not be raised. At present there is a 1 per cent VAT ceiling, and Community expenditure will have risen to hit it by 1982 at the latest.

The West Germans are not willfully denying the EEC funds they could raise without difficulty. The Bonn Government faces one of the toughest domestic savings programmes it has ever undertaken. Already some minor taxes are to be raised to help pay part of the extra bill caused by the settlement with Britain in the summer. There is not much scope for raising other taxes with the domestic economy flagging and that means stringent belt-tightening.

It should be stressed there are some at the Bonn Foreign Ministry who take what might be called a "more political view." There it is held that if the choice is between raising the VAT ceiling or risking the breakdown of the EEC, then

the first course will be taken. But it is also worth noting that a decision to increase the VAT taken by Brussels would need parliamentary ratification of the member states, and in West Germany's case, broad support in the Bundestag across party lines.

There are few signs that this support would be forthcoming. This in turn implies that there is no course but to take firm measures to hold back the growth of EEC agricultural expenditure, which accounts for some 70 per cent of the Brussels Budget. Here, it is far from clear that France and West Germany are in accord.

The French have made it plain, in public and in private, that they will not accept reform of the CAP; only adjustments to curb abuses. Herr Josef Durieux, the Bonn Agriculture Minister for the last 11 years and quite possibly fulfilling the same role for another four, is also against changing the principles of the CAP. The fear is that if this policy were fundamentally changed then the key achievement of the EEC in creating a common market for industrial goods would be threatened—with grave consequences for Germany above all.

Enlargement

The question, then, is whether enough can be done to hold back expenditure without reforming the system itself. Past experience suggests it cannot. But it is to be noted that the Community agreed to take on new members, during the last year, on the basis of the common principle of the CAP to cover more countries and produce. The answer is no. Not the West Germans, none the less, see enlargement as a political and indeed military necessity to help safeguard the southern flank of NATO.

One could hardly find a better example of the irresistible force and the immovable object in international politics. It would be fruitless to pretend a way out of the mess is clear at present, but it is worth, in closing, to recall two points.

Herr Schmidt has just come through a general election with an increased parliamentary majority—he is probably in his last full term as Chancellor—and he must be aware that he will never be in a stronger position to try to force events in the EEC. Second, in 1977 virtually everyone was bemoaning the absence of major progress or even of initiatives in the EEC; by the end of 1978 the decision had been taken on a Franco-German initiative to establish the European Monetary System (EMS). Against the evidence, 1981 could bring further surprises—not necessarily unpleasant.

Added impetus to maintaining a balance under restrictions

DEFENCE

ROGER BOYES

PITY POOR Hans Apel. Two years ago he overcame lingering doubts and shed the Finance Ministry portfolio to take up his current job as German Minister of Defence. The example set by Chancellor Helmut Schmidt, himself a former Finance and Defence Minister, seemed to underline that it was an important stepping stone in the career of an ambitious politician.

But Herr Apel has rapidly discovered that no other portfolio—not even Finance—are the options so tightly circumscribed. Germany's geography (its long border with Warsaw Pact countries), its history (which makes the non-stationing of nuclear weapons on its soil an important point of policy), its party political complexion (a sizeable part of the Social Democratic party was opposed to new theatre nuclear weapons), its present financial state (a current account deficit this year of DM 20bn plus) and its strategic position, all these contribute towards making German defence policy little more than a balancing act.

How, for example, does one maintain a balance between one's commitment to the NATO alliance, and specifically the U.S. with the need to maintain a dialogue with (and, at the same time, deter) the Soviet Union and Eastern Europe? It is not a static process; earlier in this U.S. election year, White House interpretation of what constituted Alliance solidarity seemed to change almost monthly and, after the Soviet invasion of Afghanistan and the Polish troubles, talking with the East became even more difficult than usual.

Out of this web of policy prerogatives, a coherent defence programme has to be spun.

Paradoxically, the Soviet Union, in its curiously self-defeating way, came to the aid of Herr Apel's frustrated defence planners.

The Soviet invasion of Afghanistan suddenly gave the Defence Ministry more leverage than it has had in years and above all it gave a focus to German policy. The balance of power in the Gulf had to be restored (though by diplomatic rather than military means), forces had to be given more flexibility and defence spending had to be boosted to meet the NATO target of a 3 per cent real increase. Left-wing critics of German defence spending—

German ships participating in a joint Naval Force to the Straits of Hormuz, no likelihood of a permanent stationing of German warships in the Indian Ocean. In short, the Germans see their defence role as essentially a European one.

The problem is that this relatively limited defence role does not match up with Germany's proven economic strength or with its growing importance on the international stage. To U.S. critics, for example, it appears that Germany is trying tacitly to assume a world leadership mantle without committing itself to the responsibilities of global defence that such leader-

countries should expect their traditional links with the weaker parts of the Alliance or outside it, and cultivate bilateral military ties.

There is no denying, however, that Bonn was rather worried about the general flow of U.S. leadership, especially immediately after the invasion of Afghanistan, when competition between the Allies seemed to be particularly bad. In defence terms, one of the consequences of this was a drawing closer of the French and the Germans in many matters. This too squares up with Bonn's division of labour concept.

Thus Bonn has become determined that the Franco-German tank project agreed on this year should continue, despite considerable doubts by German industry. The German companies that developed the Leopard II tank were concerned that the French were simply not investing enough in the project, that they were prepared to take only a small number of the finished vehicles, that the know-how was essentially German and would be exported needlessly to France. The German Defence Ministry appears to be prepared to override these criticisms for the sake of sealing the Franco-German defence bond.

Maintaining the credibility of deterrence is the official problem facing Germany over the next few years as the superpowers edge towards a new round of strategic arms race. In December, the NATO Alliance decided to deploy medium-range missiles in Europe—many of them in Germany—but coupled the decision with the offer of arms control talks with Moscow. The Soviet Union promptly refused to start such talks as long as medium-range weapons were deployed "until 1985" to be stationed in Europe. The Kremlin line was, it was assumed, designed to strengthen

GERMAN DEFENCE AT A GLANCE	
Military service	15 months
Defence expenditure 1980	38.85 Dm bn.
Total armed forces	495,000 (including 225,000 conscripts)
Mobilisation strength	1.25m approx.
Army	335,200
Navy	36,500
Air Force	106,000

Source: International Institute for Strategic Studies.

and of the NATO missile modernisation plan—were temporarily winded, a supplementary budget was drawn up to help beef up aid to Turkey and 'ease the strain on the German army's fuel costs, the West European union lifted tonnage restrictions on warship construction and new, potentially expensive multinational projects, such as the Franco-German tank, were mooted.

But Germany has not become a military superpower overnight. It may have an extremely large conventional army (see table) but, at root, the Soviet invasion of Afghanistan and the subsequent Alliance discussions merely underlined Bonn's limited capacity for manoeuvre within NATO.

There is, for example, no question of the German Armed Forces acting in a Gulf Emergency Force, no possibility of

ship requires. It is left to the U.S. to take the global defence duties—and take the risks—while Germany merely shows itself willing to fill in the gaps left in its own defences by a sudden U.S. withdrawal.

Much of German diplomatic activity in the U.S. has been concentrated on trying to dispel this impression. In the first place, Bonn repeats the point about the various limitations on its room for manoeuvre. But German officials also stress that Germany views the NATO alliance as a collection of countries with different, contributing tasks and not as a mirror-image of the Warsaw Pact. The German Alliance of defence is that of "Division of labour." This means simply that it is pointless for Europeans slavishly to mimic the U.S. in, say, creating a Gulf defence force; rather European

CONTINUED ON NEXT PAGE

Problems more complicated than the answers imply

FOREIGN RELATIONS

JONATHAN CARR

IS West Germany's "Ostpolitik" in ruins? Is Bonn breaking Western Alliance links to intensify its links with the Soviet Union? Is its friendship with the U.S. seriously endangered? These questions have all been posed—in the Federal Republic and abroad—in these last difficult months. The Bonn Government, which sets great store by the "firmness and predictability" of its foreign policy course, has naturally given reassuring answers to each one. But the situation has become more complex than either the questions or the answers imply. Three examples help to show why. Earlier this month the East Germans sharply increased the entrance fees which West Germans and West Berliners have to pay to cross the border. Not only is the measure likely to mean a marked reduction in visits to East Germany from the West,

after a decade of Ostpolitik during which these contacts had soared, it also means new, severe strains between Bonn and East Berlin and pushes into the far distance a long-planned, and oft-postponed, meeting between Chancellor Helmut Schmidt and the East German leader, Herr Erich Honecker. The West Germans have little doubt about why the new measures were taken. They believe the East German authorities fear the destabilising influence of a further, major influx of Western visitors while the newly independent labour movement continues its struggle in neighbouring Poland. Herr Schmidt had already lost a friend and leader he admired when Poland's Mr. Edward Giersek was toppled from power by the labour unrest. Now hopes of an intensification in East-West German relations have been dashed too. Worse, it is assumed that the East Germans would not have taken so drastic a step without the approval of the Soviet Union. Some voices are therefore suggesting not simply that the Ostpolitik has run into the ground but that a new Cold War is imminent. Clearly that might yet be the

outcome if the situation in Poland develops into a crisis which other Warsaw Pact states believe endangers their vital interests. But the last decade of Ostpolitik has shown that for virtually every step forward there has been at least a half-step back. There have been repeated difficulties between Bonn on the one hand and the Soviet Union and its Eastern European allies on the other. Yet they have generally been overcome for the good reason that each side had something the other needed. That remains true—even now.

Benefits

For the West Germans the immediate benefits have lain in greater trade, economic and human contacts, and the resettlement in the Federal Republic of hundreds of thousands of ethnic Germans from the East. The much more distant aim is to help achieve so great a relaxation of tension in Europe that the German people will be able to unite in free self-determination.

No one thinks the realisation of that aim is just around the corner, and the Polish events in themselves underline the

dilemma of the Ostpolitik. How can stability within Eastern Europe and between East and West Europe be maintained when a Communist dictatorship relaxes its hold enough to allow at least some elements of a domestic opposition? Can a more flexible situation, which is after all a key aim of the Ostpolitik, remain controllable? It is because of these questions that many Germans have watched the Polish events with deep and mixed feelings—admiration for the workers and fear for the achievements of a decade of détente.

The benefits from Ostpolitik for the East are a similar mixture of the concrete and the theoretical. East Germany has gained marked economic and financial benefits from the Federal Republic, and stood to gain more had the Schmidt-Honecker meeting been realised. For this reason it was long prepared to tolerate a growing degree of relaxation, a greater number of Western visitors. For Moscow, West German industry and technology has been important—in some cases crucially so—in fulfilling key elements of its economic plans. No doubt the Russians too with the idea that the Federal

Republic might be detached from the Western Camp, at least they would hardly be human if they did not have that hope. But the realisation of such an aim seems, judging by present attitudes, to be markedly less realistic than the German hope of unity.

Gesture

Not everyone would share that view—either in the West in general or in at least one currently influential part of the U.S. administration. Herr Schmidt's visit to Moscow on June 30 and July 1 for talks with the Soviet leader, Mr. Leonid Brezhnev, can easily be interpreted as a gesture which helped the Russians out of the international isolation caused by their invasion of Afghanistan.

During the same visit the signature (albeit at relatively low levels) of a long-term Soviet-West German economic co-operation accord, gave many cause for unease. Were the Germans really going ahead with "business as usual" despite their decision to boycott the Olympic Games over Afghanistan as the U.S. had requested? Have they become

so dependent on Soviet contracts (and raw materials) that they cannot afford to stand with the West against Moscow when the international situation seemed to demand it?

The first part of the answer is that Herr Schmidt's Moscow visit had relatively little to do with Afghanistan. It had a lot to do with the problem of Soviet intermediate-range nuclear missiles, those which can hit virtually all Western Europe direct from Russian territory. This balance of interests was not clear to everyone when the visit took place. However, Herr Schmidt could do precious little about Afghanistan in Moscow, beyond strongly and publicly condemning the invasion, warning of the dangers for détente and urging that Russian troops be withdrawn. But he could—and did—bring progress on the missiles issue.

The Soviet Union agreed to begin talks with the U.S. on the question, without insisting that a NATO decision of last December first be rescinded. Under that decision the Western Alliance agreed to produce intermediate-range nuclear missiles of its own, and to install

them if the negotiations it offered to Moscow came to nothing. A dangerous deadlock then developed, with the Russians refusing to talk and the U.S. highly unwilling to do so because of Afghanistan. Herr Schmidt set out to break that deadlock—not because Afghanistan did not matter but because European interests above all would be vitally affected by a further upward spiral of the nuclear missiles race. Of course, none of that means that the Soviet-U.S. talks will definitely result in agreement, but what could be done by Bonn and the Europeans on the issue has now been done.

The second and economic part of the answer is that the West Germans are not, in general, vitally dependent on their Soviet and East European trade, although some industrial sectors would suffer considerably if a total embargo were imposed. For example, in 1979 only 5.3 per cent of West German mechanical engineering exports went to the Comecon countries; in 1978 the proportion had exactly doubled. At present, the West Germans import about 16 per cent of their natural gas from the Soviet Union and, if a deal currently under negotiation goes through, that proportion will rise to a maximum 30 per cent. If the Soviet gas were then interrupted—for whatever reason—the Germans would face a major problem, but not a catastrophic one given their energy "mix" and the diversity of their supply sources.

But that is not the crucial point here. The West German Government is pledged to support the embargo on high technology deliveries to the Soviet Union, imposed by the U.S. after the Afghanistan invasion. It is also ready to support an extension of the list of the Coordinating Committee on East-West Trade (COCOM), which lays down which sensitive Western products should not be exported to the Soviet Union for security reasons. But it is not ready to go beyond these pledges to bar exports of other products to Moscow, simply on the grounds that such action might please the U.S. Government and win the approval of American public opinion.

That is the point at which Bonn draws the line and that is one measure of a new German political self-confidence. How-

ever, the spectacle of a West German Chancellor (with some flanking help from the French President) prodding the two superpowers into talking to one another on the missiles issue is itself a novel one. It could almost certainly not have happened a decade ago and exemplifies well how West Germany's international political influence has grown to match its economic strength.

Foresight

The relative change in the political weight of the U.S. and West Germany has been a far more important source of difficulty between the two countries than any personal irritations between Herr Schmidt and President Jimmy Carter. It raises a whole array of new problems which demand much foresight and patience on both sides of the Atlantic.

A recent West German opinion poll makes the point well enough. Asked which country they felt to be the Federal Republic's best friend, 53 per cent chose the U.S.—easily in the first place—followed by France with 14 per cent. Asked what was more important for the future of the German people, good relations with the U.S. or with the Soviet Union, 63 per cent chose the former and only 12 per cent the latter. In 1954 when the pollsters put the same question, 82 per cent had chosen Washington and 10 per cent Moscow.

So far so good. But the question was also asked whether the Federal Republic should wholly support Washington on foreign policy or decide in some cases to go its own way. Here 30 per cent spoke in favour of unqualified support whereas 56 per cent wanted a case-by-case decision.

The conclusion to be drawn from these results is surely not that the West Germans are becoming more anti-American, or pro-Russian—or even more neutral—but that they have become more pro-European (or perhaps more pro-German, for the data is not sufficient to make this clear). There was a time when the Germans virtually had to accept whatever U.S. policy demanded, grateful for American help in rebuilding their country and for the U.S. defence shield. They are still grateful, but that is a long way from offering unconditional support for American policy in all circumstances.

Added impetus

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the hands of those domestic opponents of the NATO decision in Belgium, Holland and Germany (where the Social Democratic party congress, after considerable soul searching, approved the NATO move). This has had a degree of success in Belgium and Holland but, as far as Germany is concerned, the invasion of Afghanistan has effectively quelled most murmurs of discontent. Moreover, when Chancellor Helmut Schmidt broke the ice surrounding the Soviet Union this summer he came back with the promise that Moscow would negotiate after all—providing the talks included forward-based systems.

This may prove to be one of the sticking points in the coming talks: how are the forward-based systems to be defined? As far as German defence specialists are concerned, the FBS are assumed to mean the

170 F-111 bombers stationed in Britain and nuclear strike aircraft on U.S. carriers in the Mediterranean. But what if the Russians want to include the submarine-based Poseidon warheads (actually already counted in the unratified SALT 2 treaty) or the U.S. Phantoms based in Europe? The U.S. would then, no doubt, want to broaden the Soviet negotiating area to include a variety of modern Soviet aircraft capable of hitting Western Europe. The list could expand almost endlessly and in the interim the Soviet Union could continue to place more and more SS-20s missiles in Western Russia so that the imbalance in favour of Moscow would rise disturbingly.

For Chancellor Schmidt, who first drew public attention to these medium-range "grey zone" weapons, this is an alarming prospect. SALT 2, a relatively straightforward treaty,

took over six years to negotiate. How long would it take to reach a medium-range missile agreement, beset as it is with definitions problems right from the beginning?

But the immediate problem bothering the Chancellor and Herr Apel is how to build an efficient form of consultation into the forthcoming arms control talks between Washington and Moscow. There is the problem, too, of what forum is most suitable for talks on medium-range weapons, given that SALT 2 has not been

ratified—a fact that is bitterly regretted in Bonn. Can there be a SALT 3 without a SALT 2?

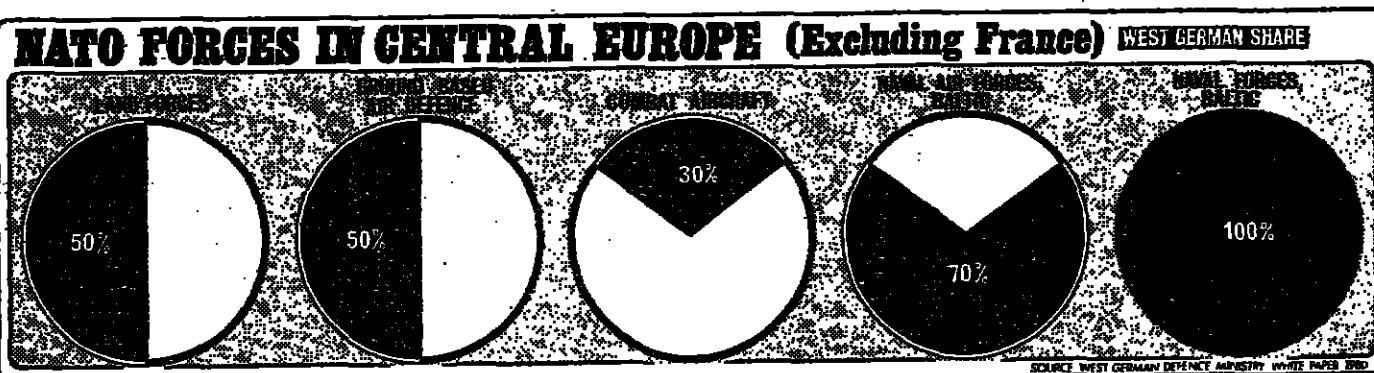
Chancellor Schmidt's election victory—or rather the astonishingly good result of Herr Schmidt's Liberal Coalition partner, the Free Democrats—should strengthen his hand within the SPD. The intense opposition to the new NATO arms decision experienced last year is unlikely to be repeated as long as arms control talks are being held. Even if such opposition does emerge, Herr Schmidt will be able to push

through his line with the aid of the FDP. This is partly because of his own obviously sincere wish to get talks started with Moscow and also because of Soviet action themselves.

But one worry will be if the smaller Allies, disillusioned by the slow progress on arms control talks, decide not to station the new generation of theatre nuclear weapons on their soil after all. Holland has imposed a two-year delay on its decision to accept 48 U.S. cruise missiles while Belgium's decision now appears to rest entirely on the

success or otherwise of talk with Moscow. This is of real concern to Germany because it has firmly pledged that it will not be the only continental European country to have the new weapons on its territory.

As the prospects for the arms talks become clear over the coming 12 months—will they become bogged down from the word "go"?—so will Germany's evolving relationship with its European NATO allies. Bonn may well find itself growing more assertive, if only to ensure that it does not become isolated within the Alliance.



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WEST GERMANY VI

Immigrant population at record level

FOREIGN LABOUR

KEVIN DONE

THE SIZE of the Federal Republic's foreign population has this year reached a new peak of 4.14m, despite the fact that the large-scale recruitment of foreign workers (gastarbeiter) to help fill employment gaps in the booming West German economy was officially halted as long ago as 1973.

Between 1974 and 1977 the total foreign population did decline slightly by around 180,000, but in the last two years it has headed up again to a record level. In periods when the economy has been expanding strongly, such numbers have been relatively easily assimilated, but there are now growing fears in West Germany that if unemployment problems start to force the first to be hit will be the foreign workers.

They have long been regarded by many as a "reserve labour force" that could be employed in times of boom and more easily laid off when the economy started to run out of steam. More and more the authorities are realising, however, that this temporary workforce is taking on all the appearances of becoming a permanent presence in the Federal Republic.

Dr. Josef Stigl, president of the Federal Employment Office, warned recently that foreign workers could find themselves forming a new unskilled labouring class in the Federal Republic. "They are not necessarily the unemployed of tomorrow, but perhaps the proletariat of tomorrow. That is a sweeping remark, but I really do see this danger. They would be employed as temporary workers and then laid off again at any moment."

The scope of the difficulties facing the authorities is more complex, however, than just the problems of the labour market. The arrival of more and more foreign families coming to join husbands already working here combined with the birth of a generation of foreign workers

children, whose only direct knowledge of their home country comes from their parents' descriptions, promises to set formidable problems of social integration.

The latest wave of would-be immigrants has occurred as a result of West Germany's very liberal political asylum laws. In the last two years there has been a surge of people from Turkey and a string of third world countries, Eritrea, Somalia, Afghanistan, Pakistan and India, turning up at German airports and border points claiming to be the victims of political repression. According to the Basic Law of the Federal Republic, such people cannot be simply turned away: their petitions must be given a proper court hearing.

Overwhelmed

The sudden flood of such "economic refugees" overwhelmed the established tribunal system with the result that cases were taking up to three or four years to be heard. During this period applicants were free to stay, under certain conditions, in Germany. The entry system has been tightened up in recent months and the flow of would-be "political refugees" has slowed considerably as a result, but the backlog of the summer months has clearly been disturbing.

Today, one in every 15 in the population of the Federal Republic is non-German, and the length of stay of most foreigners—more than half have now been in West Germany for more than eight years—suggests that many have settled in the country for the long-term and are unlikely to return to their homelands.

A study published recently by the German Institute for Economic Research shows too that foreign workers from particular nationalities are sending less money back to their countries of origin than was the case some years ago, suggesting that family members are more often being brought to Germany to live.

The birth rate among the foreign population is also more than 50 per cent higher than among the native German population, although it has fallen sharply, and an increasing proportion of foreigners in West Germany are present not as

workers, but precisely as family dependents.

Back in 1972 some 65 per cent of the foreign population were in employment, but with the growing number of wives and children present the proportion has fallen to only 49 per cent, much closer to the average for the whole German population of 43 per cent. The size of money transfers has been falling, particularly from the Turkish population. In 1972 the Turks were sending more money home than any other nationality, around DM 4,700 per worker.

By last year the Turks' transfer payments had fallen to an average of little more than DM 3,000 per worker, a figure easily surpassed by the Spaniards, Greeks and Yugoslavs in Germany who are still remitting sums from DM 4,200 to DM 5,000.

Total foreign worker payments out of Germany last year amounted to DM 6.4bn, according to estimates made by the Bundesbank, the West German Central Bank, and are an important contributor to the negative side of the Federal Republic's growing deficit on the current account of the balance of payments.

There has been, too, a sharp turn-around in the balance of migration to and from Germany. Since 1978 more foreigners have been coming to Germany than have been leaving. A development brought about chiefly by movements of the Turkish and Italian populations. Among the Italians travelling to and from Germany many were simply taking advantage of the freedom of labour movement granted by membership of the European Community and were coming to the Federal Republic specifically to find work.

Among the Turks, however, a very different picture emerges, with the majority of the movements accounted for by family members.

What is disturbing for the German authorities is that in many cities the concentration of foreigners and of single nationalities in particular neighbourhoods of the larger cities is threatening to create permanent ghettos, which can only hinder the process of integration.

It is seen clearly in a city such as Frankfurt, which has the highest concentration of foreigners of any of the larger German cities. In Frankfurt every fourth person is non-German, but in some areas of the city, particularly around the main station and between the station and west port, virtual foreign ghettos have been formed where the proportion of foreign residents has already passed the 70 per cent mark.

The problem becomes most acute, however, in the schools. The city has more than 30,000 foreign children, representing about 23 per cent of the foreign population. The same age group among the city's German inhabitants accounts for only about 13 per cent.

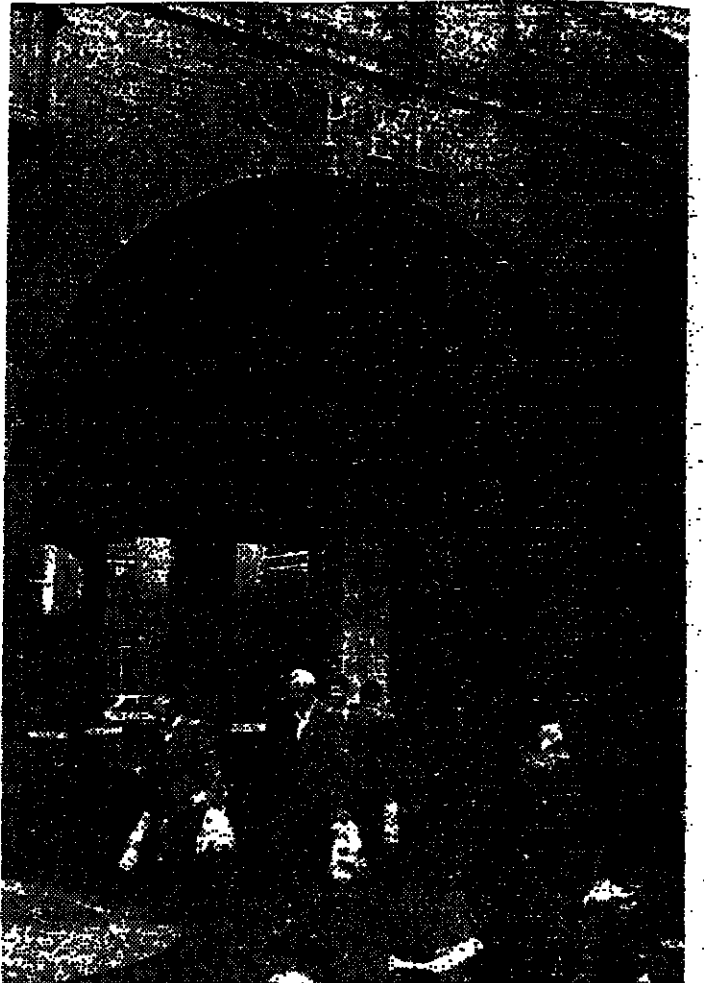
The result is that some schools in the city have classes of more than 30, in which only a couple of the pupils are Germans. Teachers are confronted with classes where the children have nine or 10 different languages, and the city estimates that across the city more than 40 per cent of the children starting infants school will soon be non-German.

The danger that Germany is facing for the future is that it will create a large group of second-class citizens, often denied the rights of full citizenship, severely disadvantaged in terms of education and training, for whom only the most unattractive jobs in German society are available. The resentment that such conditions can arouse over the years and the danger of alienation clearly provide a fertile breeding ground for future discontent.

The majority of foreign workers have usually found themselves in jobs where there is an above average chance of being made redundant.

Foreigners have also found themselves mainly employed in sectors that are very sensitive to changes in the overall state of the economy. More than 60 per cent of the foreign workers are employed in manufacturing industry and another 10 per cent in the construction industry. Conversely, of course, some of these industrial sectors could barely function without their foreign workers.

At a company like Ruhrkohle, West Germany's main coal-mining group, more than 15 per cent of the workforce are foreigners, but at some of its pits the company is almost exclusively dependent on foreigners to work underground



Foreign workers leaving the Opel factory at Russelsheim

at the coal-face. Some 12 per cent of the country's construction workforce consists of foreign labour, and foreigners also make up 13 per cent of the total labour force of manufacturing industry.

For many years the authorities' policies towards foreigners were clearly hostile towards making it possible for them to settle long-term in the Federal Republic to live and work. The regulations have been eased somewhat, however, since 1978, although permission to stay indefinitely still hinges on several factors such as the length of time already worked consistently, knowledge of the German language, adequate living accommodation for the worker and his family, and whether children of school-age have actually been sent to school.

Conditions for future full citizenship are being made rather easier for young people

who have grown up in Germany and have done most of their schooling there.

As the report from the German Institute for Economic Research makes clear, the political will to foster the integration of the foreign populations is now being expressed, but the facts hardly correspond yet to the hopes. "The situation today is characterised rather by the formation of ghettos, by under-privilege, and in part by a lack of willingness on the part of both Germans and foreigners to integrate."

It is especially the young foreigners who find themselves caught between two cultures, and they are often further handicapped by lack of education. Some 20 per cent are not attending school regularly, 50 per cent do not gain their school-leaving certificate, and 50 per cent do not go through the obligatory vocational training.

Leaders urged to take a more aggressive stance

UNIONS

ROGER BOYES

THE FINELY-TUNED relationship between West Germany's trade union movement and the country's employers has come in for a battering over the past year, as both sides jostle for more bargaining power before this winter's tough wage negotiation round.

Both sides have been arguing bitterly over the maintenance of strict workers' co-determination rules in steel companies and over the use of the lock-out against striking workers. The co-determination row has also unearthed deep divisions between the two Government coalition partners the Social Democrats and the Free Democrats, leading to an embarrassing pre-election conflict. In the event, the issue was put on ice until after the elections, taking some of the sting out of the row.

But it would be misplaced to dismiss the latest turmoil in labour relations as simply a piece of election campaigning theatre. There are profound changes taking place in the structure of the German union movement which go far beyond party political haggling or wage round bombast.

In the first place there is growing pressure on the aging leadership of the country's major unions to move away from their traditional consensual approach to a more aggressive stance. This emerged last month at the annual congresses of the IG Metall Workers' Union—the largest union in the Western world—at the IG Chemical Workers' Union and the smaller but influential Bank and Insurance Workers' Union. Repeatedly the criticism was heard that the union leadership had grown soft partly because of years of Social Democrat-Free Democrat rule. The union's natural leanings towards the SPD means, claimed the union critics, that the leadership had muffled their wage claims in the "national interest," ignoring the interests of their representatives.

These criticisms have considerable substance—last year IG Metall, which usually sets the pace for the rest of the union movement, put in claims for some 10 per cent but ended up settling for between 6 and 7 per cent and the rest of the country

followed suit. The union leadership appeared to have accepted the employers' argument that German labour costs were among the highest in the world and that further wage burdens would lead to a fall in employment.

But this line of reasoning had only a limited appeal for the grassroots membership who have seen their fuel bills soar. Regional activists called on the union leadership—especially in IG Metall—to press for a special "fuel supplement" in addition to the normal wage increase. However, the union leaders, after consulting with the Bonn Government, rejected these appeals.

Not surprisingly then, disillusion with the union leadership has crept in among the rank-and-file. The old generation of leaders—Herr Eugen Lederer of IG Metall and Herr Karl Haunschild of IG Chemie—have made it clear that they have entered on their last terms of office.

These men helped to establish the re-constituted union movement after the war, were involved in the early implementation of the worker-in-the-boardroom legislation and are close to politicians like Herr Herbert Wehner, floor leader of the SPD, who were active when the Federal Republic was created.

Critical

They are essentially men of consensus, while the up and coming generation, best symbolised by Herr Franz Steinkuehler, the combative regional union chief in IG Metall's Baden Wuerttemberg district, have sharply critical positions towards the Government and the employers.

Herr Steinkuehler, for example, has been pressing the IG Metall leadership to end the "pilot region" way of settling wage conflicts. The pilot scheme effectively means that the first IG Metall district to settle with its regional employers sets the guidelines for most other negotiating districts. But as

the central leadership often strongly influences the decision of the first district, settlements almost always end up as moderate wage increases.

The unions' particularly tough line on workers co-determination (Mitbestimmung) has to be seen in this context. The union leaders—many of whom were involved in implementing the first 1951 law in coal and steel concerns—are anxious to prove to the radicals within the unions that no concessions will be made to the employers. This does not of course point to a quick solution of an extremely complex and controversial issue.

The root of the current dispute is the plan of the Mannesmann concern to merge its steel and pipes divisions and thus save, it says, some DM 50m a year through rationalisation. The problem is that such a merger would free Mannesmann from having to comply with the 1951 co-determination law which provides for strict parity between labour and capital on the supervisory boards of steel and coal companies.

The move would instead put Mannesmann under the jurisdiction of a far more flexible 1976 law which provides for Mitbestimmung in all companies (except coal and steel concerns) that employ more than 4,000 people. This also gives workers parity but gives the casting vote to a representative of the shareholders and provides that at least one representative of management has to be included in the workers' delegation.

The unions were never happy with the 1976 law and fear that as a consequence of the Mannesmann move it will be easier for steel companies, for example, to reduce their workforces.

But underpinning the union case are both tactical and symbolic considerations. The symbolic aspects is that the Mitbestimmung regulations were the first real test of union strength in post-war Germany. The first real victory for organised labour at a time when workers had lost their self-

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WEST GERMANY'S AGEING UNION LEADERSHIP

The age structure of the 105 executive board members at the head of Germany's 17 main unions:

- 9 are younger than 40
- 22 are between 41 and 50 years
- 71 are between 51 and 60 years
- 3 are older than 60

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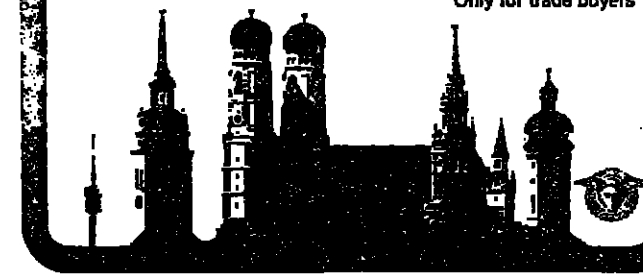
DATES 1981

- 7 - 15 February
CARAVAN — BOOT — INTERNATIONALER REISEMARKT
12th International Exhibition for Caravans, Boats, Travel and Vacation
- 14 - 17 February
INHORGENTA 81 — 8th International Trade Fair for Watches, Clocks, Jewellery, Precious Stones and Silverware with their Manufacturing Equipment
- 25 February - 1 March
ISPO 81 — Spring — 14th International Sports Equipment Fair
- 14 - 22 March
IHM — 33rd International Light Industries and Handicrafts Fair — The Fair for small and medium-sized Enterprises
- 29 March - 1 April
43rd MODE-WOCHE-MÜNCHEN
International Fashion Fair
- 22 - 25 April
98th Congress of the German Surgical Society with Information Show
- 6 - 10 May
COSMETICS 81 — 2nd International Trade Fair for Cosmetics, Health and Beauty Care
- 19 - 22 May
INTERHOSPITAL — International Hospital Exhibition and 11th German Hospital Meeting
- 1 - 4 June
LASER 81 OPTO-ELEKTRONIK
5th International Congress and Trade Fair
- 23 - 27 June
IFAT — 6th International Trade Fair for Waste Treatment and Disposal: Sewage - Refuse - City Cleaning - Winter Services
- 10 - 13 September
ISPO — Autumn — 15th International Sports Equipment Fair
- 17 - 20 September
INTERMONTEC — Equipment for Alpine Sports, Leisure Activities and Tourism — 6th International Trade Exhibition with Conferences
- 23 - 25 September
IGAFA — 11th International Trade Fair of Hotel and Catering Trades
- 4 - 7 October
44th MODE-WOCHE-MÜNCHEN
International Fashion Fair
- 19 - 23 October
SYSTEMS — Computer Systems and their Application International Congress and Trade Fair

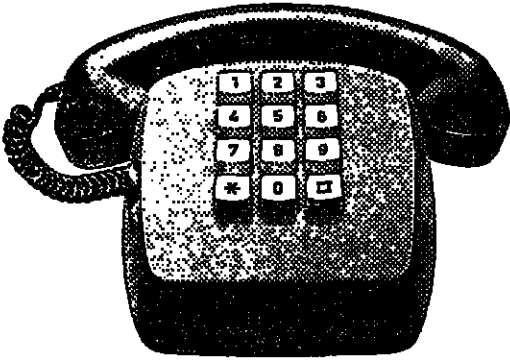
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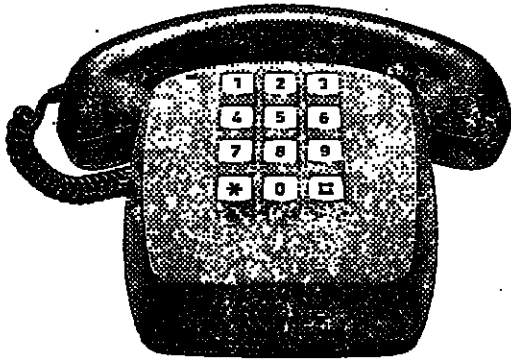
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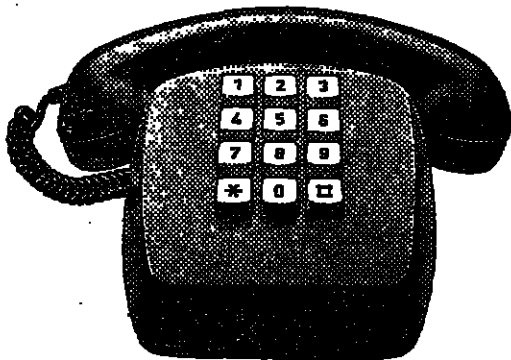
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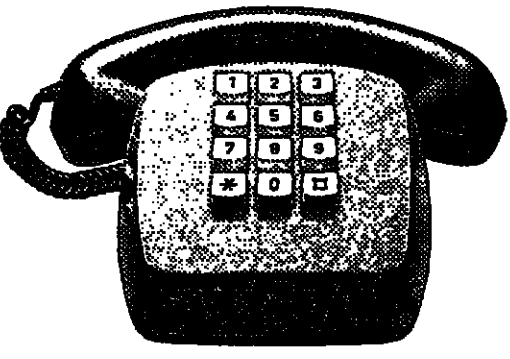
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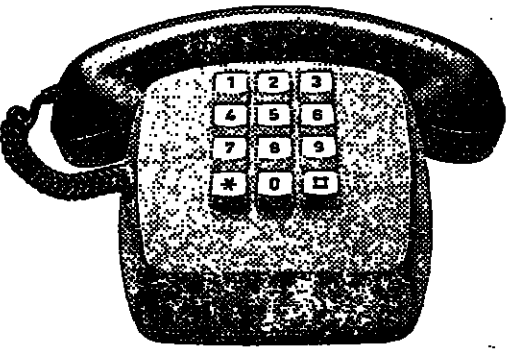
Foreign exchange and deposits



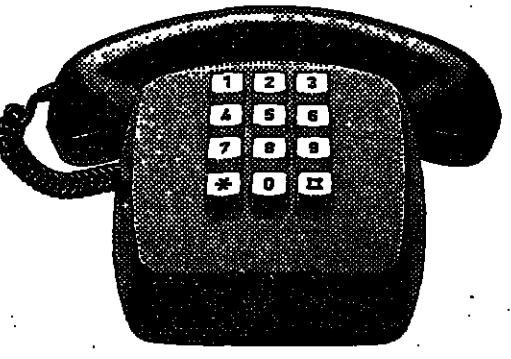
Trade financing



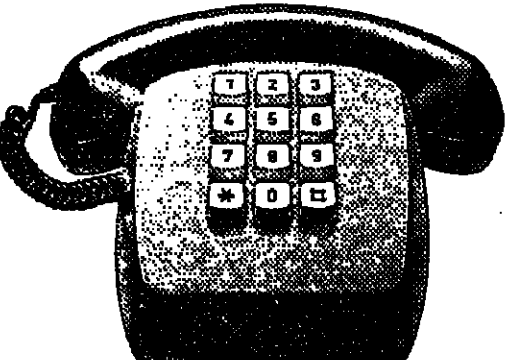
Euro currency financing



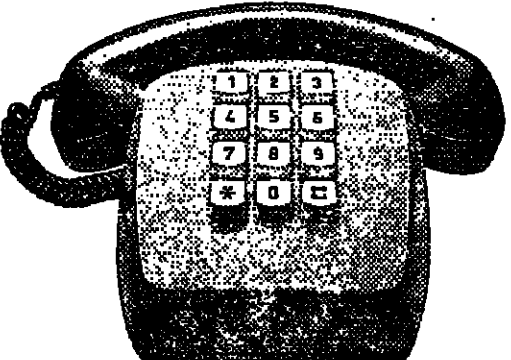
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WEST GERMANY VII

Key factor in the nation's economic development

TECHNOLOGY

ROGER BOYES

ONE OF the more noticeable ideological splits in the new Social Democrat/Free Democrat Government centres on the German economy's ability to respond to shifting market demand by quick innovations. How far should the State help companies to research and develop new products and thus make them more internationally competitive in troubled times?

The views of Count Otto Lambsdorff, the Economics Minister, have been known for some time and indeed are etched on the hearts of his Liberal Free Democrat Parliamentarians. "Market forces," he said recently, "are not as blind to the future as some people would have us believe." "Some people," almost certainly embracing his Cabinet colleague, Dr. Volke Hauff, the Research and Technology Minister. A left-inclined Social Democrat, he believes that businesses should be financially aided and encouraged to innovate by the State, especially during an economic slowdown. Employment levels have to be maintained along with competitive-

The conflict is not as stark as it at first seems. Both Ministers agree that German exporters are facing hard competition (German productivity is strong but the combination of high wage and raw material costs, plus social benefits, has seriously burdened small businesses) and cheap imports are increasingly penetrating traditionally strong German industries (optics, cars) which have not reacted swiftly enough to changes in demand. Both Ministers agree that companies' ability to introduce and adapt new technology will be one of the key factors in the economic development of the 1980s.

Innovation

The dispute, or rather discussion, is whether the Research Ministry is really focusing enough on technological innovation or whether it is issuing tacit forms of subsidy to prop up old industrial structures. The Economics Ministry is not opposed to the use of subsidy, but it distinguishes between "good" subsidies—those used to modernise and rationalise—and "bad" subsidies—those aimed simply at maintaining capacity in industries that are stuck in the middle of structural crises (steel, for example).

A clear case in point was the granting this year of over DM 200m in soft loans—partly from the Research Ministry, partly from the Provincial State Government—to Hoesch, the

steel company, to help finance new plant. Critics of the Research Ministry, including rivals of Hoesch, complained that Hoesch should actually have modernised several years ago and financed the changes itself (just as other steel companies had). The Research Ministry was thus distorting internal competition on the steel market, it was claimed.

If the pre-Election Christian Democratic arguments are to be believed, the Research Ministry has thus become a form of creeping Socialism, quietly pushing forward the State's influence over industry. However, the figures give a rather different picture.

The Research Ministry's proposed spending this year is DM 6.17bn (up 11 per cent on 1979) and about 45 per cent of this has been allocated to support scientific institutions, both at home and abroad. That leaves about DM 3.3bn for research and development projects, about DM 2.3bn of which goes towards German business.

Of course DM 2.3bn is a substantial sum but it has to be compared with the R and D sums drawn from private industry. Thus Siemens, the electrical group, spent DM 2.7bn R and D—90 per cent self-

80 per cent of all industrial R and D in West Germany.

Where the State can play a role—and all sections of the Government are agreed on this—is to help the R and D budgets of smaller businesses. The Research Ministry simply does not have the funds to create a "silicon valley" (on the U.S. model) dedicated to the fortunes of the micro-electronics industry and thus has to rely on companies like Siemens, drawing their own conclusions about their commercial future, to finance their own R and D. But smaller businesses, which have a good record for technological innovation, are the ones that cannot adequately keep their R and D budgets buoyant during recession. R and D personnel are among the first to be cut; research programmes among the first to be curtailed.

Exceptions

There are, of course, exceptions to this rule and in general even small businesses engaged in the two main science-based industries—chemicals and electronics—keep their R and D programme up to strength. But it is traditional export earners such as the machine tool industry, with margins squeezed at home and hit by Japanese

GOVERNMENT RESEARCH AND DEVELOPMENT SUPPORT FOR GERMAN BUSINESS

	1976	1977	1978	1979	1980
Direct assistance	1500	1600	1900	2200	2300
Indirect assistance	106	153	139	474	620

Source: West German Research and Technology Ministry

financed—in 1978-79. Altogether more than DM 21bn was spent on research and development in the West German business sector last year, with the money being drawn overwhelmingly from the resources of private enterprise.

At first sight, a breakdown of this spending seems to support Count Lambsdorff's contentions that following market forces does not necessarily mean ignoring the future. Thus, according to the German Science Foundation, the seven fastest growing industries between 1970 and 1978 included five of the largest R and D spenders. In terms of increased sales growth, the list was headed by the chemicals sector (which spent 4.7 per cent of its turnover on R and D), the car industry (5.7 per cent), instrument manufacture and optics (4.9 per cent), engineering (3 per cent) and the electronics sector (6.4 per cent). Including aerospace—which is almost entirely dependent on State funds for its R and D budget—these five sectors are responsible for over

competition on third markets, that are the natural targets for state R and D support.

Yet for a number of reasons Research Ministry aid to small businesses has not been applied very effectively over the past few years. Dr. Hauff points out that the amount of his budget allocated to small businesses has gone up from DM 96m in 1972 to DM 820m this year but, even so, many businessmen are very critical about the delays and methods involved.

The major criticism has been of the cumbersome bureaucracy of the Ministry and of the Government bodies. Entrepreneurs who could have put their product on the market in two years are claiming that they often have to wait for four years because of the various committees which have to investigate claims for Government help. The delay leads to added expense and fosters the notion that it is cheaper to go ahead without State aid. But companies stuck deep in the recession are actually more likely to abandon the idea altogether. The Federation of Young Entrepreneurs (BJU), an industrial

pressure group, claims that this destroys the main advantage of smaller companies in export markets: their flexibility of response to changing demand and the ability to capitalise on new ideas.

The same facts are that it is simpler to administer a single research project worth DM 30m with a large concern that already has an R and D infrastructure than to monitor 150 projects worth DM 200,000 each. This steers towards a situation whereby larger companies become skilled at applying for hefty research sums while smaller concerns are deterred from doing so.

The inevitable consequence of all this is that innovation is stifled. According to a finance specialist in the CDU, Dr. Lothar Stavenhagen, "Companies tend to settle for projects which they know will be approved today by the bureaucrats rather than what the market will actually want tomorrow."

Research Ministry officials maintain that their assistance is intended only as a pointer towards the type of industrial R and D that it thinks desirable—towards energy alternatives, aircraft technology, data processing. The problem, they say, is not philosophical or strategic but rather financial. If it had double its resources for industrial R and D it would be able to meet most needs of the economy.

Yet there are a number of indications that Germany is beginning to lag behind other Western countries in terms of technological innovation. One measure of this trend is the amount of licences and patents that are sold and bought by Germany. Recent figures issued by the Bundesbank, the Central Bank, show that Germany is in deficit as far as licence transactions are concerned; that is, German companies are buying in more know-how than they are selling. Most licences and patents were bought in the U.S., Switzerland and Holland, with chemical companies and electrical engineering companies buying the most. Most exported know-how—as expressed in sales of licences—went to the U.S., Japan, Italy, France and developing countries.

The State is only one cog in the R and D machine and it is clearly unfair to blame it too heavily for slow innovation. The banks, for example, once the traditional source of risk capital, are becoming more restrictive as far as financing new technological developments is concerned.

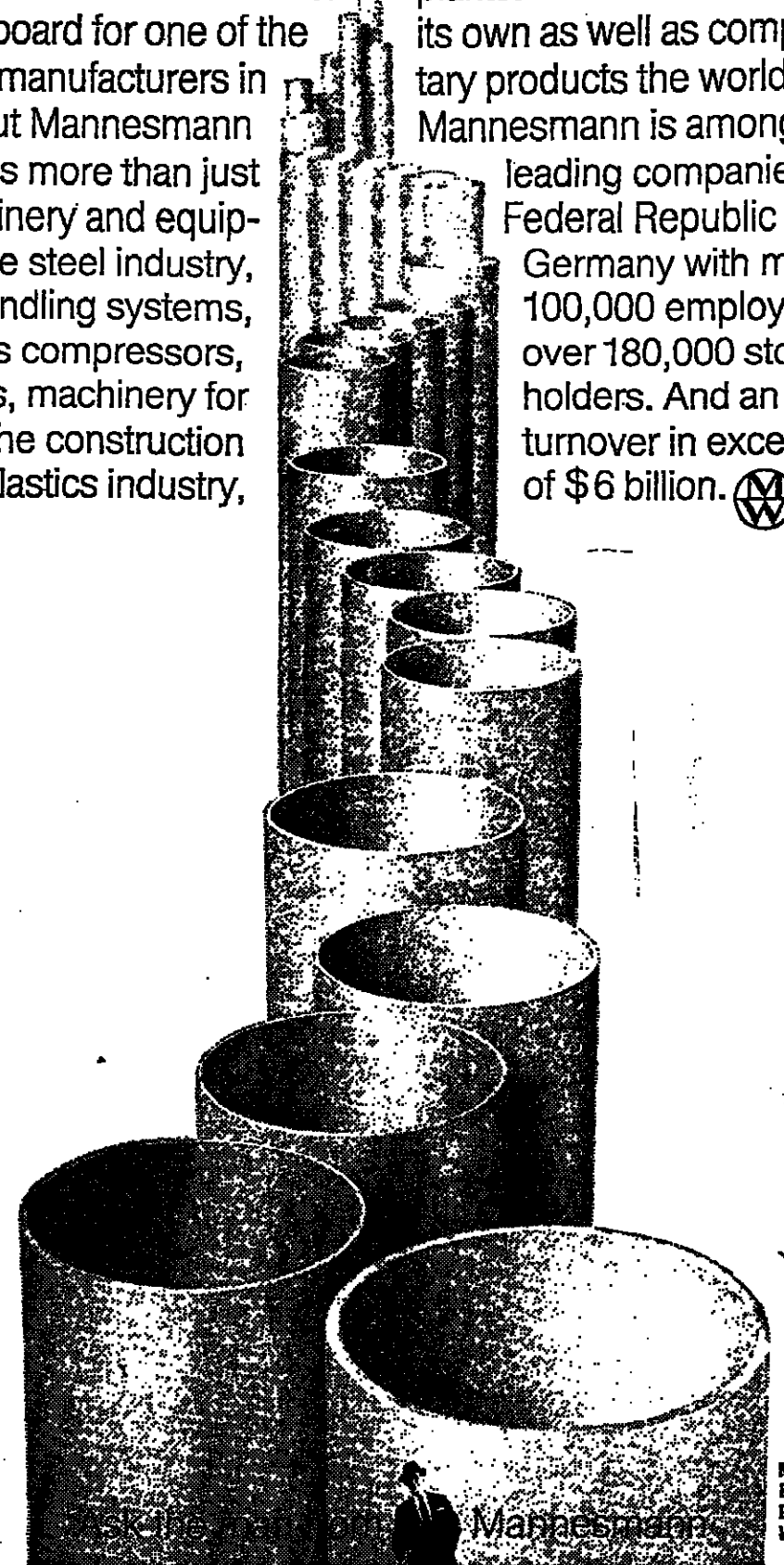
But the dilemma remains: should the State intervene more actively to encourage technical innovation or are such moves simply self-defeating? It is unlikely that the new Coalition Government will try to provide definitive answers but the search for even a pragmatic solution could lead to an interesting tug-of-war between the parties over the next four years.

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Different stance

CONTINUED FROM PREVIOUS PAGE

confidence after over a decade of Nazi rule.

For a company to evade the 1951 law, hits at the achievements of the current union leadership and thus undermines their position vis-à-vis their much younger, much more radical membership.

The second union consideration in the Mannesmann row has been the need to maintain a strong wage negotiating front as the German economy begins to slow. Worker participation at supervisory board level generally helps in the formulation of wage claims—information about the state of a company percolates through to the union machine via the worker directors.

Worker directors are also in a good position to keep an eye on the possibilities offered by fringe benefits, an increasingly important item in the overall wage claims.

The unions have proposed a number of possible schemes to Mannesmann that would allow the group to have DM 50m without having to push through a full scale merger. Mannesmann has so far rejected these ideas and will discuss the issue during its supervisory board meeting on November 21.

One possible solution—surprisingly favoured by the Christian Democratic opposition—is that Mannesmann become liable to yet another co-determination law passed in 1956. This provides for strict parity in steel concerns but gives shareholders a slight edge in the board room.

A revision of the 1956 law would have to be passed if Mannesmann were to fit comfortably within its framework. However unions are deeply suspicious of this solution and there is still a great deal of horse-trading ahead.

The Mannesmann row, coming as it did only weeks before the elections, provided the SPD with an opportunity to reaffirm

its strong links with the union movement. The rallying call of the SPD was that the strict workers parity laws have to stay intact—and the policy clearly paid dividends. In 1976, 57.3 per cent of union members voted for the SPD and all the signs are that this support was maintained in this year's elections.

Implications

There is a school of thought which suggests that the union leadership is fighting the wrong war. While it is clearly important to have a say in companies stuck in the middle of structural crises—steel and shipbuilding—it is surely even more important that the unions secure a hold in rapid growth industries such as micro-electronics.

Such a course would help unions to steer the course of wage settlements to an acceptable level, it is argued. fledgling industries from the beginning, helping to chart strategy and watching carefully the implications for unemployment.

Instead, say critics within IG Metall, the leadership is reliving the past, hanging on to past legislation rather than pressing for new laws.

That is a convincing line of argument, but it is equally understandable why the union leaders are on the defensive. The employers for example have this year won a case in the Federal Labour Court ruling in favour of their right to use the lock-out.

The current union leadership is thus under siege from the employers and from within its own ranks. Little wonder then that the union leaders are a cautious breed, careful that the country's economic limits are not exceeded in wage claims. The alternative—a more aggressive approach—would probably alienate the Social Democratic Government and at the moment the union leaders need every friend they can get.

WEST GERMANY VIII

Domestic answers to heavy dependence on imports

ENERGY

KEVIN DONE

WEST GERMANY is dependent for as much as two-thirds of its energy needs on imports and is therefore highly vulnerable to events in world energy markets, particularly the world oil market. Last year, for the first time since 1965, the Federal Republic ran up a deficit on its current account of the balance of payments of some DM 10bn and the chief reason for the shortfall was the huge rise in the size of the country's oil bill.

In 1980, the price of crude oil has risen further and with it the size of the current account deficit to an estimated DM 30bn. Nearly half of the country's energy needs are met by oil alone and with more than a doubling of the price of crude oil in the last two years the Federal Government in Bonn and the Bundesbank, the West German Central Bank in Frankfurt, have found that the economic burdens placed on the country by the magnitude of the oil bill are suddenly playing an important role in undermining their freedom of manoeuvre to steer the Federal Republic's monetary policies.

The Government's response has been to try to organise an energy policy that has as its main theme the slogan "Away from Oil," but it can hardly be said to have had any startling successes. Last year the Federal Republic's consumption of oil reached a new peak, exceeding even the previous record year

of 1973. It is true that this year oil use has actually started to fall again, but it is difficult to show how much this is due to Government-induced oil saving programmes or how far it is a result of lower general economic activity and kinder weather conditions.

The much slower economic growth in the second half of the year means that Germany will have no problem improving on its target of importing no more than 133m tonnes of crude in 1980. In the first half of the year total energy use was down by three per cent, nearly all of which was due to falling oil consumption, which dropped by no less than 8 per cent.

The chief cause of the fall in oil use was the much milder winter, which brought a 14 per cent fall in heating oil consumption in the first six months of 1980 against the corresponding period of 1979. The Federal Economics Ministry also claims that energy-saving measures do appear to have had some impact on the industrial use of heavy heating oil, which fell by 12 per cent in the first six months of the year. Officials say there are two main factors at work: industry is investing more in fuel-saving machinery, and at the same time switching to coal and gas-based processes.

Reduction

In the coming years the main goal of the Federal Republic's energy policy is to try to reduce the rate at which energy consumption grows in line with general economic expansion. In the years from 1960 to 1973 primary energy consumption grew at the same rate as West Germany's Gross National Product. From 1973 to 1979 the

relationship did improve but the Government must be concerned that in 1978 and 1979 the growth in demand for primary energy was again substantially higher than the general growth in the economy.

Apart from using this measurement of the efficiency of energy use, Bonn has also expressed the desire to move to more forms of energy other than oil to fuel future economic growth.

At present West Germany relies on crude oil to provide no less than 50.7 per cent (1979 figures) of its primary energy, while other fuels play a decidedly more modest role. Last year, hard coal provided 18.6 per cent of the country's energy requirements, brown coal 9.3 per cent, natural gas 16 per cent, hydro power 1.4 per cent and nuclear power 3.4 per cent.

The use of oil has risen dramatically since the early 1950s. In 1950 it was still meeting only a tiny 4.7 per cent of West German energy requirements (natural gas met the even more modest share of 0.1 per cent) but by 1972 oil consumption had grown so quickly that it was providing 55.4 per cent of the country's primary energy requirements, the highest point it has ever reached.

Despite suffering in the last two years from the effects of rising oil prices, West Germany has managed largely to smooth over most threats to its physical oil supplies and at the same time has done much to move its dependence away from some suppliers in OPEC to suppliers closer to home, such as the UK and Norway.

West Germany has a small amount of domestic crude oil production, but it is only enough to meet just under 5 per cent

of the country's oil requirements, and there is little chance of this level being raised. The crude is heavy and difficult to handle and much can now only be produced through techniques of enhanced recovery.

Domestic natural gas production is more successful, meeting some 34 per cent of German requirements, but again there is little possibility of any significant increase in domestic production.

Domestically West Germany has only one really important energy resource, coal, but this is extremely expensive to produce and it can only be kept competitive with imported coal and other forms of energy such as fuel oil and gas through a massive programme of Government subsidies. Last year state help to the coal industry totalled DM 6.3bn in various forms of assistance, up from DM 5.3bn in 1978, and this year it could prove to be even higher. The Economics Ministry is deeply concerned at the prospects of having to meet an ever-growing financial commitment to the coal industry and this year's contributions are putting a heavy strain on the already tight Federal budget.

With a major investment programme underway, the Federal Republic is hoping to boost coal output to a level of around 100m tonnes by the year 2000. Capital expenditure of around DM 8bn will be needed to establish the extra production capacity and Ruhrkohle, West Germany's dominant coal producer, estimates that a further DM 3bn will have to be spent to maintain existing mines. Domestic coal production may be expensive, but it is the only energy resource available in abundant quantities and the Federal Republic's coal reserves

are estimated at around 24bn tonnes, which would give coal production a life of around 270 years at current output levels.

Towards the end of the century, coal could also be making some contribution towards meeting oil and gas demand if the Government is successful in its aims of promoting coal liquefaction and gasification technology. Feasibility studies for West Germany's first commercial-scale coal gasification plants should be completed by the end of the year and plans for the first coal liquefaction plants will follow about nine months later.

Support

The plants form part of an ambitious DM13bn coal-refining programme that is being sponsored by the Federal Government, but it is still not clear how the financing of the programme will be organised. The State is considering various forms of support from direct grant aid to equity participation, but much of the effort of financing Germany's move into coal refining will have to be borne by industry itself.

The Federal Government has 14 potential coal-refining projects under consideration, but it has warned that the plans will make very little difference to the country's overall energy supply position. Oil and gas products derived from coal will be available to meet only about 3 per cent of oil and gas demand by 1990.

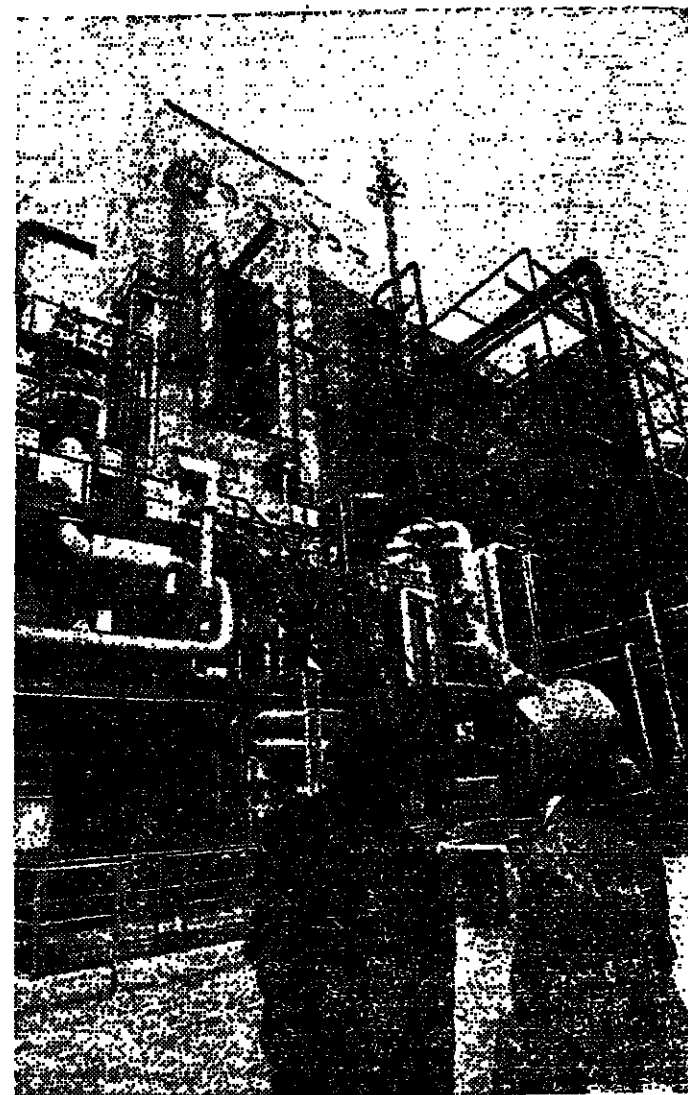
One of the basic tenets of Bonn's energy policy to date has been that state involvement should be kept to a minimum and that structural changes should be brought about by market forces. Price, for instance, is

seen as one of the main factors in restraining energy consumption.

The State is actively involved, however, in subsidising various forms of energy, especially coal, and in promoting research and development work. Last year it spent as much as DM 9.5bn on measures related to energy, 67 per cent went on subsidising coal production, 21 per cent on energy research projects and 9 per cent on encouraging energy saving.

The country is facing some of its most searching questions, however, in the area of electricity supply and the future development of nuclear power. Last year nuclear power stations provided 14 per cent of the utility companies' electricity generation, but the delays in building new power stations—coal as well as nuclear—has led the industry to warn that shortages of power could develop later in the 1980s. At present only some 9062 MW of nuclear power generating capacity is in use and a further 9905 MW is in construction, while 16,797 MW of potential nuclear capacity has been caught up at some stage of the planning process.

The future role of nuclear energy in the Federal Republic has also been bedevilled by the inability of the authorities to push through a practical programme for the storage of nuclear waste and the re-processing of spent fuel elements. There is also concern that the delays and hesitation over implementing a more far-reaching nuclear programme will permanently damage Germany's power station building industry, with the result that it will be unable to keep abreast of the latest technological developments.



The pilot coal gasification plant at Dorsten, in the Ruhr, part of the Federal Government's feasibility study on replacing some of the demand for oil and gas with contributions from coal

Russian deal would boost supplies

GAS

KEVIN DONE

MOSCOW'S DECISION to open formal negotiations with a West German-led consortium of European gas companies on a massive new natural gas project between the USSR and Western Europe signals a further major step in the development of West Germany's already overwhelming dependence on imported energy. But it also represents one of the single most important boosts given to West German energy supplies for the late 1980s.

At a time when Bonn is making only slow progress in its policy of cutting back the Federal Republic's oil consumption through the increased use of coal and, to a lesser extent, nuclear power, imported natural gas has offered itself as an invaluable alternative. One of the most positive results of Chancellor Helmut Schmidt's visit to Moscow earlier this year was to open the way to formal negotiations on a new gas contract that could prove to be the biggest business deal ever reached between Eastern and Western Europe.

West Germany had been counting on boosting its natural gas supplies in the mid-1980s through the start of deliveries of gas from Iran and Algeria, but these hopes have received nasty blows in recent months through the revolution in Tehran and substantial changes of policy in Algeria.

Alternatives

The rapid pace with which talks between the USSR and Western companies have developed since July are the most optimistic sign to date that alternative supplies could be available to fill the gap left by Iran and Algeria. The contract with Iran was signed as long ago as 1975, when the then government of the Shah agreed through the National Iranian Gas Company to supply some 11bn cubic metres of gas a year to the Federal Republic, with deliveries beginning next year. Additional supplies were to have flowed to France and Austria with the gas being pumped across the Soviet Union by pipeline, but the project has been on ice since the end of 1978.

The quantities that were to have come from Algeria to West Germany were even larger. A number of customers had lined up to take Algerian liquefied natural gas (LNG) including Ruhrgas, the leader of the Western consortium in the talks with Moscow, Salzgitter and Thyssen Gas, BEB, a joint affiliate of Shell and Exxon, Deutsche BP, the West German subsidiary of British Petroleum and Gasunie of Holland. Some of this list had completed all formal negotiations and had signed a definitive supply agreement with Algeria, which was to have supplied 17bn cubic metres of LNG a year by tanker.

Work had even begun on the engineering plans for a re-gasification plant at Wilhelmshaven on the West German North Sea coast, when the Algerians finally announced, recently that they would not go ahead with the project.

Under the new project with Russia, Moscow has signalled its readiness to step into the breach by developing fields in western Siberia from which Western Europe could eventually draw as much as 40bn cubic metres of natural gas a year. More than a quarter of this would go to the Federal Republic.

Under arrangements already in force, the Soviet Union last year supplied West Germany with 10bn cubic metres, while another 11bn cubic metres went to Italy, Austria and France through the extensive European gas trunkline transmission system. The much higher level of supplies that is now being talked of would require an entirely new pipeline running some 2,800-3,100 miles and the entire project could cost as much as DM 15bn-DM 20bn.

Despite the strained state of relations between Moscow and the West following the Soviet invasion of Afghanistan, the Federal Government has shown little sign that it is reluctant to have to rely even more on Russian sources of energy to help fuel the West German economy. The Bonn Cabinet decided earlier this year that the Soviet share of German gas supplies could be allowed to expand from the present 16 per cent to an ultimate 30 per cent.

The key roles in the deal itself will be played by two West German companies — Ruhrgas and Mannesmann — together with the Deutsche Bank, the largest bank in the Federal Republic. Ruhrgas, West Germany's leading gas importer and distributor has been striving over the last few years as a major priority to diversify its natural gas sources, and it has played a leading role in most of the large Continental gas supply deals.

Mannesmann, on the other hand, is likely to be chiefly responsible for the supply of the large diameter pipes and the compressor stations en route that will pump the gas to the West. Supplementary pipe work could be won by other West German steel and mechanical engineering groups such as Salzgitter and Hoesch. Deutsche Bank appears to have emerged as the co-ordinator of the DM 20bn credit, heading a financing consortium of more than 20 West German and foreign banks.

One German company, Deutsche BP, has also held separate discussions with Moscow on a similar sort of gas deal, but it appears that it has given up its independent approach and will eventually be offered a stake in the main consortium. Also in the group negotiating with the Soviet Union from West Germany are Thyssen Gas, Salzgitter and BEB.

The one other country that could emerge as a much larger supplier of natural gas to the Federal Republic in the late

1980s is Norway. Gas has been flowing from the Norwegian sector of the North Sea by pipeline from the Ekofisk group of fields to Emden, in northern Germany, since 1977. Supplies from the Eldfisk, Eddi and Albuskjell fields were added in 1979 and by last year gas from the North Sea—chiefly from Norway but also, to a small extent, from Holland—met some 15 per cent of German natural gas consumption.

The Norwegian gas deliveries to the Federal Republic amount to some 10bn cubic metres a year at present, but a move is expected in the Norwegian Parliament next year which would make available another 20bn cubic metres a year. A consortium of German gas importers, together with allied companies in the Netherlands, Belgium and France, is pushing for that gas, but this time the have competition in the shape of British Gas. The next stage of Norwegian gas development must decide how best to construct a gas gathering pipeline scheme to pick up gas from a number of small fields, but Oslo is yet to say where the pipeline system will come ashore.

Jig-saw

West German gas companies working in close co-operation with other Continental gas operators, have built an impressive network of gas distributor trunk lines across Europe, from the Norwegian North Sea to the Mediterranean in one axis, and from the Czechoslovak border to the French Atlantic coast or the other.

The latest part of the jig-saw puzzle that has been fitted into place by a consortium of Ruhrgas, OMV of Austria and Gaz de France, is an extra line running for some 150 miles across northern Austria from the Czechoslovak border and then another 400 miles across southern Germany to the French border. Because of its central position in Western Europe, West Germany tends to act as the pivot of the entire system.

Last year natural gas provided some 17 per cent of West European primary energy consumption. West Germany itself as the single largest customer on the Continent, is still pursuing the hope that last year's gas supplies of 60bn cubic metres enough to meet 18 per cent of its primary energy needs, can be expanded to more than 83bn cubic metres a year by 1990 enough to meet 18 per cent of primary energy consumption.

At present around 34 per cent of its natural gas consumption comes from its own onshore fields, chiefly in Lower Saxony but the chances of increasing output there is remote, so all the increase will have to come from higher foreign supplies. If the goal of meeting 18 per cent of primary energy consumption is to be reached, however, there will have to be early agreement with either the USSR or Norway. It will take at least four to five years to develop the gas fields and build the transmission system, so there is little time to spare.

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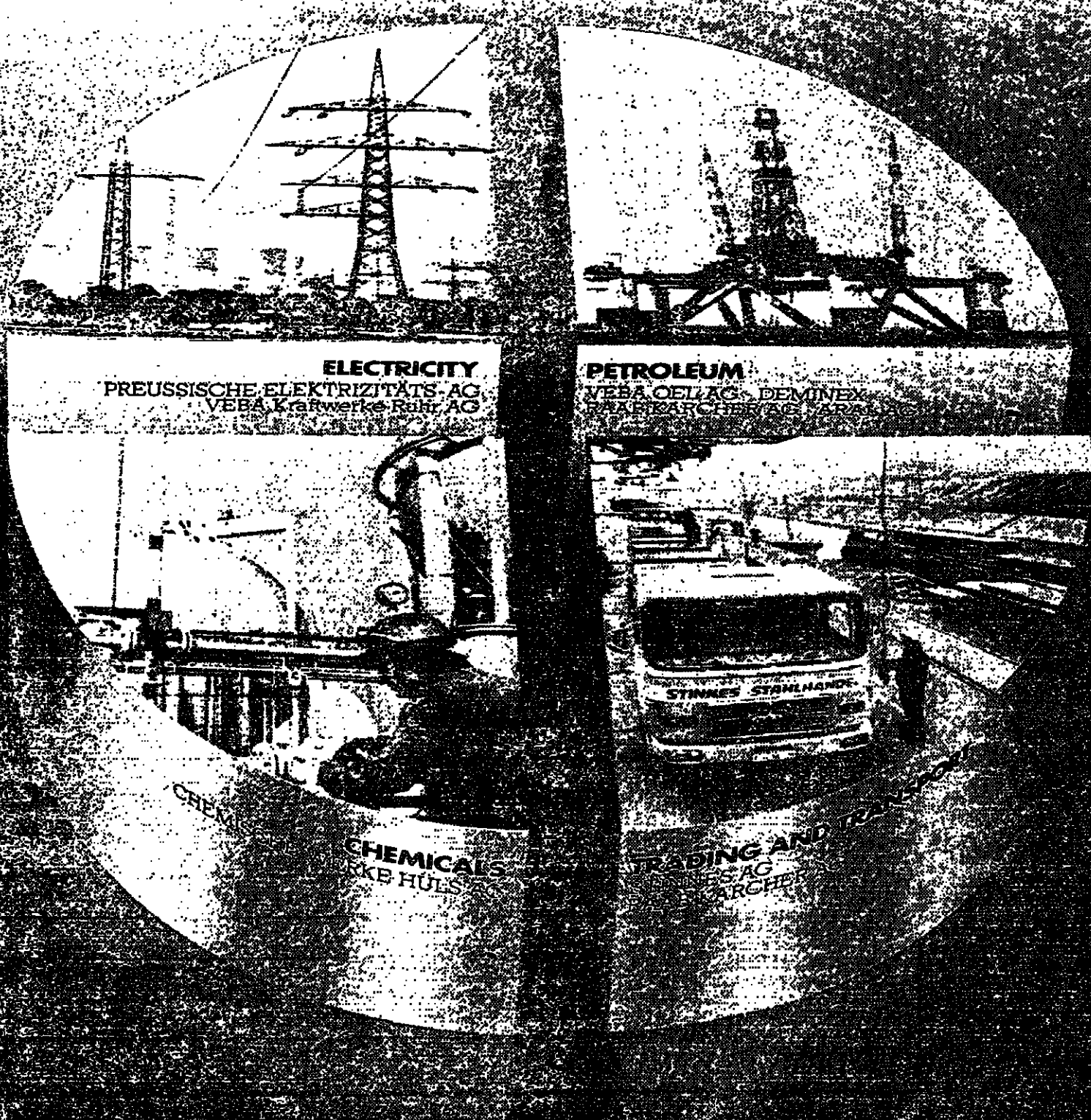
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WEST GERMANY IX

Bonn belies tight-fisted reputation

STATE AID
LESLIE COLITT

WHY DOES the West German Government, hardly an advocate of government intervention in industry, own a large steel and engineering company, a portion of West Germany's biggest industrial group as well as a slice of its leading automobile company? The answer is to be found in recent German history.

During the Second World War, a significant part of German heavy industry was run by a Reich holding company which at war's end was dismantled and split by Allied order into smaller units. One of them, Salzgitter AG, was taken over by the new West German government.

Similarly, the Federal Government owns 44 per cent of the Veba energy group, West Germany's largest company with a turnover last year of DM 38.7bn and pre-tax profits of DM 1.5bn. Veba was originally formed as a holding company in 1929 for the Prussian state-owned enterprises and when Prussia was dissolved by the Allies in 1945 Veba passed into the hands of the West German Government which in the 1960s sold off the largest portion to the public.

Volkswagenwerk AG, of which 20 per cent is owned by the Bonn Government and 20 per cent by the State of Lower

Saxony, was until 1945 held by two trusts established by the Reich Labour Front. In 1961, 60 per cent of its shares were sold to the public.

Apart from the expected government monopolies such as railways and posts, the West German Government's holdings include the Saarbergwerke AG, the Viag company and the IVG concern. Altogether the six industrial companies account for DM 3.9bn out of the DM 5.1bn of government share capital in some 80 German enterprises.

Putting things into perspective, though, the total revenues from the companies flowing into government coffers was a modest DM 195.7m in 1979. This was a DM 35m rise over the previous year because of a higher Veba dividend and increased revenues from VW, Deutsche Lufthansa and the Government-controlled company which runs Autobahn concessions. This sum, however, does not include the dividend from the Government's VW holding which goes directly to the Volkswagen Foundation.

Unviable

Many of the Government-owned enterprises, such as airports and canals and institutes engaged in research, are commercially unviable. Others, such as the Kreditanstalt für Wiederaufbau, which serves the small- and medium-sized companies, and the Deutsche Pfandbriefanstalt are not permitted to make more than a small profit, if any at all.

In the area of government subsidies to industry, West

Germany is not as tight-fisted as its reputation nor does it lightly provide aid. Hard-pressed West German shipyards are getting Federal and state subsidies of DM 600m which comes out to an average 10 per cent subsidy for each ship ordered in 1979 and 1980. Ship-owners are also offered interest-free loans worth 1.5 per cent of the book value of their ships and up to DM 550m in liquidity aid.

One such aided shipbuilder, Howaldtswerke-Deutsche Werft is a 75 per cent subsidiary of the state-owned Salzgitter company, while the state of Schleswig-Holstein holds the remaining share.

Other Federal subsidies include an exemption of the tax on diesel fuel for ships amounting to DM 445m this year. There is also an exemption of DM 350m in taxes on aviation fuel as well as DM 70m in uncollected taxes on oil used by petroleum processing companies. Farmers need not pay DM 640m in taxes on the diesel oil they use to run their agricultural machinery.

All told the West German Government is providing industrial subsidies this year worth DM 13.6bn and tax reductions worth DM 13.9bn.

Among the most important West German subsidies are those going to West Berlin and to the area bordering on East Germany. Companies setting up factories in the so-called zonal border area, and especially in West Berlin, are assured of West Germany's most generous investment incentives and tax rebates.

Although West German industry has a healthy spread of medium-sized and small-sized companies the trend toward bigness is unmistakable. West Germany's Monopolies Commission says the 100 largest German companies boosted their share of total sales to 24.2 per cent in 1979 compared with 21.7 per cent in 1972. The top six companies accounted for 23.3 per cent of the turnover of the leading 100 companies in 1979, while six years before their share was under 20 per cent.

Law changed

That extremely active anti-trust agency, the West German Cartel Office, in West Berlin, notes that 224 mergers escaped its control last year because they involved large companies taking over small firms with sales of less than DM 50m. In 87 per cent of the cases the large companies had sales of more than DM 1bn. An amendment this year to the cartel law should appreciably reduce the number of companies exempted from registering their intent to merge with the Cartel Office.

The amendment stipulates that the West Berlin office can prevent mergers if a company with sales in excess of DM 1bn tries to take over a company with sales of DM 4m or more. Even under the new regulation the Cartel Office must still prove that a "market dominating position" would be achieved or strengthened by the merger.

The Cartel Office says it expects one result of this amendment to be that smaller companies will increasingly be

taken over by medium-sized ones and not automatically by the largest as was the case until now. It notes, though, that the invasion by the large companies into areas dominated by medium-sized firms — such as trading houses — will only be stopped if the Cartel Office can prove market domination will result and not merely by applying its criteria for "suspicion" as provided for under the amendment. Plans to merge are nearly always dropped by the companies involved when the Cartel Office tells them of its objection without issuing a formal merger ban.

Among the leading large companies in the past five years involved in takeovers were, in the order of frequency, Veba, Rheinisch-Westfälisches Elektrizitätswerk, Deutsche BP, Deutsche Shell, Hoechst-Estet, Dresdener Bank, Salzgitter, Haniel, Thyssen, Ready Mixed, Ruhrkohle, and Westdeutsche Landesbank.

Although the number of mergers handled by the Cartel Office has increased year by year since merger controls went into force in 1974, other figures show the total number of firms in West Germany has risen from 1.58m in 1974 to 1.66m in 1978. However, a closer look shows that while in manufacturing the number of companies rose back to the level that existed in 1968, the great majority of newly-founded firms were hotels, pensions and restaurants while the number of small tradespeople, especially shoemakers and clothing store operators, has fallen steadily in the past decade.

75 of the top 100 companies in Germany do business with us.

Company	Sales - million DM - 1978	Staff - thousands - 1978	Company	Sales - million DM - 1978	Staff - thousands - 1978
Industrial enterprises			Industrial enterprises		
1 Veba	31777	27589	81 Veba-Werke	2541	2298
2 Siemens	29009	25198	82 Siemens-Werkzeugmaschinen	2256	1730
3 Volkswagenwerk	26724	20192	83 Dörflinger	2226	1729
4 Salzgitter	24539	21712	84 Dörflinger	2226	1729
5 Hoechst	23191	25206	85 Salzgitter-Werkzeugmaschinen	2226	1729
6 Thyssen	23159	21021	86 Salzgitter-Werkzeugmaschinen	2226	1729
7 BASF	22256	21154	87 Salzgitter-Werkzeugmaschinen	2226	1729
8 Bayer	22236	21392	88 Salzgitter-Werkzeugmaschinen	2226	1729
9 Klockner-Gruppe	14227	12132	89 Salzgitter-Werkzeugmaschinen	2226	1729
10 AEG-Telefunken	14087	14236	90 Salzgitter-Werkzeugmaschinen	2226	1729
11 RWE	13778	11871	91 Salzgitter-Werkzeugmaschinen	2226	1729
12 Mannesmann	12670	11714	92 Salzgitter-Werkzeugmaschinen	2226	1729
13 Ruhrkohle	12488	10574	93 Salzgitter-Werkzeugmaschinen	2226	1729
14 Gutehoffnungshütte	12401	10855	94 Salzgitter-Werkzeugmaschinen	2226	1729
15 Esso	12076	12195	95 Salzgitter-Werkzeugmaschinen	2226	1729
16 Krupp	11994	11169	96 Salzgitter-Werkzeugmaschinen	2226	1729
17 Deutsche Shell	11883	11764	97 Salzgitter-Werkzeugmaschinen	2226	1729
18 Opel	10642	9167	98 Salzgitter-Werkzeugmaschinen	2226	1729
19 Ford	10475	10163	99 Salzgitter-Werkzeugmaschinen	2226	1729
20 Bosch	9618	9160	100 Salzgitter-Werkzeugmaschinen	2226	1729
21 Deutsche BP	9328	8863	101 Salzgitter-Werkzeugmaschinen	2226	1729
22 Quandt-Gruppe	9300	8230	102 Salzgitter-Werkzeugmaschinen	2226	1729
23 Fiat-Gruppe	8800	7800	103 Salzgitter-Werkzeugmaschinen	2226	1729
24 Deutsche Lufthansa	7854	6661	104 Salzgitter-Werkzeugmaschinen	2226	1729
25 Deutsche Telekom	7307	7361	105 Salzgitter-Werkzeugmaschinen	2226	1729
26 Salzgitter	6718	6619	106 Salzgitter-Werkzeugmaschinen	2226	1729
27 Hoechst-Werke	6538	6210	107 Salzgitter-Werkzeugmaschinen	2226	1729
28 IBM	6518	6381	108 Salzgitter-Werkzeugmaschinen	2226	1729
29 Siemens	6238	6182	109 Salzgitter-Werkzeugmaschinen	2226	1729
30 Deutsche Telekom	5885	5671	110 Salzgitter-Werkzeugmaschinen	2226	1729
31 Hoescht-Werke	5602	5363	111 Salzgitter-Werkzeugmaschinen	2226	1729
32 Hoescht-Werke	5495	4707	112 Salzgitter-Werkzeugmaschinen	2226	1729
33 Mobil Oil in Deutschland	5178	5025	113 Salzgitter-Werkzeugmaschinen	2226	1729
34 Depressa	5072	4455	114 Salzgitter-Werkzeugmaschinen	2226	1729
35 Hoescht-Werke	4318	3813	115 Salzgitter-Werkzeugmaschinen	2226	1729
36 Deutsche Telekom	4204	4026	116 Salzgitter-Werkzeugmaschinen	2226	1729
37 Enka	4200	3200	117 Salzgitter-Werkzeugmaschinen	2226	1729
38 Hoescht-Werke	4187	3224	118 Salzgitter-Werkzeugmaschinen	2226	1729
39 S.A.T.	4012	3877	119 Salzgitter-Werkzeugmaschinen	2226	1729
40 Salzgitter-Gruppe	3821	3446	120 Salzgitter-Werkzeugmaschinen	2226	1729
41 Brown, Boveri	3784	3528	121 Salzgitter-Werkzeugmaschinen	2226	1729
42 Vag	3598	3512	122 Salzgitter-Werkzeugmaschinen	2226	1729
43 Deutsche Telekom	3357	2881	123 Salzgitter-Werkzeugmaschinen	2226	1729
44 VEW	3267	2813	124 Salzgitter-Werkzeugmaschinen	2226	1729
45 Grundig	2956	2763	125 Salzgitter-Werkzeugmaschinen	2226	1729
46 DL-Saint-Gobain-Gruppe	2850	2950	126 Salzgitter-Werkzeugmaschinen	2226	1729
47 BEI	2737	2719	127 Salzgitter-Werkzeugmaschinen	2226	1729
48 Brückmann	2736	2717	128 Salzgitter-Werkzeugmaschinen	2226	1729
49 Preussag	2644	2619	129 Salzgitter-Werkzeugmaschinen	2226	1729
50 Nestlé-Gruppe Deutschland	2640	2508	130 Salzgitter-Werkzeugmaschinen	2226	1729
51 Hoescht-Werke	2584	2508	131 Salzgitter-Werkzeugmaschinen	2226	1729
52 Hoescht-Werke	2584	2508	132 Salzgitter-Werkzeugmaschinen	2226	1729
53 Hoescht-Werke	2584	2508	133 Salzgitter-Werkzeugmaschinen	2226	1729
54 Hoescht-Werke	2584	2508	134 Salzgitter-Werkzeugmaschinen	2226	1729
55 Hoescht-Werke	2584	2508	135 Salzgitter-Werkzeugmaschinen	2226	1729
56 Hoescht-Werke	2584	2508	136 Salzgitter-Werkzeugmaschinen	2226	1729
57 Hoescht-Werke	2584	2508	137 Salzgitter-Werkzeugmaschinen	2226	1729
58 Hoescht-Werke	2584	2508	138 Salzgitter-Werkzeugmaschinen	2226	1729
59 Hoescht-Werke	2584	2508	139 Salzgitter-Werkzeugmaschinen	2226	1729
60 Hoescht-Werke	2584	2508	140 Salzgitter-Werkzeugmaschinen	2226	1729
61 Hoescht-Werke	2584	2508	141 Salzgitter-Werkzeugmaschinen	2226	1729
62 Hoescht-Werke	2584	2508	142 Salzgitter-Werkzeugmaschinen	2226	1729
63 Hoescht-Werke	2584	2508	143 Salzgitter-Werkzeugmaschinen	2226	1729
64 Hoescht-Werke	2584	2508	144 Salzgitter-Werkzeugmaschinen	2226	1729
65 Hoescht-Werke	2584	2508	145 Salzgitter-Werkzeugmaschinen	2226	1729
66 Hoescht-Werke	2584	2508	146 Salzgitter-Werkzeugmaschinen	2226	1729
67 Hoescht-Werke	2584	2508	147 Salzgitter-Werkzeugmaschinen	2226	1729
68 Hoescht-Werke	2584	2508	148 Salzgitter-Werkzeugmaschinen	2226	1729
69 Hoescht-Werke	2584	2508	149 Salzgitter-Werkzeugmaschinen	2226	1729
70 Hoescht-Werke	2584	2508	150 Salzgitter-Werkzeugmaschinen	2226	1729

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Disagreement over the Japanese problem

COMPETITION
LESLIE COLITT

NO SPEECH by leading West German industrialists these days is complete without the Japanese challenge being evoked in order to prod German producers into accelerating their technological efforts as well as to get German workers to moderate their wage demands and to stop dreaming about the 35-hour working week.

Herr Otto Wolff von Amerongen, President of the West German Industry and Trade Federation (DIHT) has said, however, that he is opposed to the Japanese exercising "self-restraint" to limit their car exports to West Germany — where they captured 9.9 per cent of car sales in the first eight months of this year. In the long run, he says, this would only impair the ability of the West German car industry to compete internationally as more than half of its own output is exported. The only way to remain strong, Herr Wolff notes, is to plunge into the icy waters of competition instead of being lured by the "protective fence" mentality of others, such as the EEC Commission.

But West Germany's giant metalworkers' union has clashed with this laissez-faire philosophy, calling on the Bonn Government to limit the flood of Japanese cars after they took 15 per cent of all car sales in August. Even Volkswagen's Herr Toni Schmücker, who previously opposed attempts to block Japanese car imports, has warned the Japanese companies not to continue increasing their

exports at the present rate and reminding them that they are "vulnerable."

A trade analysis by the Berliner Bank concludes that Japan is now the only serious international competitor against West Germany in the most important sectors of German exports: electrical and mechanical engineering products, cars and trucks, precision instruments and iron and steel products. Chemicals is an outstanding exception where West German companies have maintained their large share of the world market, while Japanese firms have failed to rise above a much lower share.

The bank's survey says the "confrontation" between Japan and West Germany on international markets until now has been partly concealed because the rise in Japan's share of world exports of finished goods, which was 14 per cent in 1978, took place while West Germany's share remained constant at 19 per cent. The real loser was the U.S., whose share of world finished goods exports fell from 22 per cent in 1960 to 14 per cent in 1978.

The bank notes that in mechanical engineering, the "flagship" of West German exports, contributing 22.5 per cent of the country's total exports of finished goods, the Japanese assault in the West German market leaders has begun in earnest.

West German industrialists warn that only the best quality products of the highest technological level will allow high-wage German companies to compete successfully against the Japanese. The Berliner Bank report, however, cautions that aiming solely at technical perfection may not be the answer. It notes that frequently a good Japanese-made product at a lower price is chosen over a

superior German product at a considerably higher price. More goods, it suggests, are needed such as VW's classic Beetle, which although far less sophisticated than other cars for decades none the less provided just what the buyer wanted at the right price.

Every fourth Deutsche Mark of West Germany's gross national product continues to be derived from exports, explaining why the German export boom — which flattened out in mid-year was once again credited with saving the economy from recession. But despite a 13 per cent rise in exports in the first eight months of this year, the value of imports soared 20 per cent, thus shrinking the trade surplus from DM 16.5bn in the period from January to September last year to a mere DM 4.5bn this year. In August the trade surplus vanished altogether for the first time in 15 years when a deficit of DM 100m was recorded.

Recovery

For the entire year, trade specialists predict a 5 per cent real increase in exports and a 5 per cent real increase in imports compared with a 7 per cent and 9 per cent rise last year. A moderate decline for next year is anticipated in both exports and imports but with a recovery coming in the latter half of the year.

In the first eight months of this year, the current account deficit soared to DM 21.4bn, after DM 6.2bn in the same period last year. A previously estimated DM 25bn current account deficit this year is likely to go the way of an earlier prediction of a DM 20bn deficit. The large excess in West German spending on foreign tourism and the rising remittances home by foreign guest workers in West Germany continue to be

the largest drains on the invisibles account.

The West German Economics Ministry explains the sharp deterioration in the trade balance by the higher level of import prices over the price of exports, producing a deterioration in West Germany's terms of trade. The main culprit was the price of oil, but it did not lead to anything like the sharp fall in exports experienced in 1974-75, which in turn was a major cause of the German recession of that year.

Despite the worrying current account deficit, West Germany's Economics Minister, Connt Otto Lambdorsch, has assured his well-travelled countrymen there is no danger that currency regulations will be imposed to curb the outflow of D-Marks.

One benefit derived from rising oil prices has been the revival of Middle Eastern demand for West German plant and equipment. In the first half of this year West German exports to the Arab states rose 10.5 per cent to DM 9.2bn, while imports from them mainly because of soaring oil prices, jumped 66.3 per cent to DM 13.4bn.

Although demand from the oil producers was expected to provide badly needed support for the economy, they take but a modest 6 per cent of West German exports. By contrast nine Western European countries, plus the U.S., absorbed 67.2 per cent of West Germany's exports in the first half of this year while nearly the same countries, this time including Japan but minus Sweden, provided 61.6 per cent of West Germany's imports.

Apart from the car, truck and farm machinery sectors where foreign orders fell some 25 per cent since January, orders from abroad remained remarkably stable until the second quarter of the year. Since then foreign

orders have fallen in most industries and in August there was an 8 per cent fall in orders from abroad which was considerably more than the decline in domestic orders.

The German Institute of Economic Research in West Berlin believes that over all there will be no appreciable drop in West German exports in the coming months. Whether an expected slight decline will stretch into 1981, it notes, depends on economic conditions in the other Western industrial nations, especially the U.S. It says the slow down in imports to adjust to lower West German consumption will continue and that real imports in the second half of this year will show a slight downward trend.

Reinforcement

The sharp increase in import prices has already been reversed and this is expected to produce an improvement in the terms of trade which should be reinforced by lower world raw materials prices. The Institute says the nominal balance of trade surplus should improve in the latter part of this year. However, it forecasts that the continued rise in the invisible deficit will produce a current account minus this year of no less than DM 28bn.

A number of recent trade analyses show that West Germany's competitiveness, unlike the 1974-75 period when the D-mark was revalued upward, has not suffered in recent years. With inflation in the other major industrial countries running at about 10 per cent or double the West German rate, costs will continue to rise faster abroad than in West Germany. The day may not be far off when West German-made goods will be regarded as reasonable in price compared with West Germany's inflation-ridden competitors.

Dates for Decision-Makers. World Fairs in Hanover.

The Fair of the Fairs	Hanover Fair '81	The most important fair for capital goods. Main display groups in 1981: CeBIT - World Centre for Office and Data Technology; World Market for Electrical Engineering and Electronics; Research and Technology; ASB - Power Transmission and Control; Industrial Handling; Subcontracting; Plant Construction; Factory Equipment; Transport and Traffic; Construction Technology; "Greece - Your Partner".
International Trade Fair for Machinery and Equipment for the Wood Industries	LIGNA HANNOVER '81	The Number One trade fair in the world's wood market. The entire production programme in equipment for the wood harvest, for timber yards, sawmills and veneer technology, everything for wood working and wood treatment.
International Exhibition on Pig and Poultry Production	Pig and Poultry '81	The importance of the Hanover exhibition site at the centre of an important agricultural market guarantees worldwide impact for the "Pig and Poultry" exhibition. Experts from 50 countries gather information here about the latest programme for rational stock breeding and marketing.
4th European Machine Tool Exhibition with Worldwide Participation	4th EMO '81	95 percent of the world's production of machine tools are represented in Hanover. The biggest concentrated display providing international comparison of progress and development in manufacturing techniques.
International Building Trade Exhibition	CONSTRUCTA '82	Europe's biggest building trade fair. The entire spectrum of everything to do with building, through to the latest solutions for better energy utilisation and environmental protection. With a wide range of international technical conferences.
The Fair of the Fairs	Hanover Fair '82	Main display groups in 1982: CeBIT - World Centre for Office and Data Technology; World Market for Electrical Engineering and Electronics; Research and Technology; Energy; Subcontracting; Plant Construction; Processing; Materials; Factory Equipment; Mechanical Handling; Transport and Traffic; Construction Technology.

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WEST GERMANY X

Bankers wonder if days of rapid growth are over

BANKING

STUART FLEMING

"HAVE THE fat years gone?" read the front page headline in West Germany's leading weekly news magazine "Der Spiegel" a few weeks ago. The question is one which is preoccupying many Germans, disturbed by what they fear may be emerging evidence of a long-term deterioration in their country's economic performance.

After their experiences over the past two years many West German bankers are beginning to ask themselves the same question.

That the years of the West German "Wirtschaftswunder" have been fat ones for bankers as well as for the population at large is not in dispute. In the 1950s and 1960s healthy profits were to be earned financing industrial expansion and then

the expanding sales of consumer goods. In the 1970s came the dramatic expansion of many of the banks' overseas operations, growth which at first added further lustre to the banks' profits.

In the past two years, however, many West German banks, particularly the commercial banks, have been suffering a steady, and increasingly disturbing erosion in their profitability. Some bankers including Dr. Wilfried Guth, co-spokesman at Deutsche Bank, are beginning to ask themselves whether they must now reconcile themselves to slower growth in the 1980s.

That is not a particularly cheerful prospect, particularly for the big international banks who must take into account what impact such a period of slower growth could have on their competitive position with their multi-national rivals in the U.S., Japan and the UK.

And, significantly, it has been the big international banks (with the outstanding exception of Deutsche Bank) which have been suffering some of the sharpest profit declines. Partly, because of their different liability

structure, co-operative banks and finance houses, have so far been surviving the difficult conditions with less trouble.

A recent study of the profitability of the West German banking industry in 1979 carried out by the Bundesbank, the nation's Central Bank, highlighted these divergent trends. It also added a few caustic comments about some of the business policies which certain banks adopted.

Broadly speaking the picture it presented was of a decline of around 4 per cent in the operating profits of the banking industry as a whole, but declines of 10 per cent and 13 per cent respectively for the big commercial banks and the private banks. In contrast, the credit co-operatives increased their operating profits by 20 per cent and the instalment sales financing institutions by 7 per cent.

Within these overall figures, of course, there have been divergent trends. Deutsche Bank, the biggest of the commercial banks, achieved an 8.9 per cent rise in operating profits in 1979, while some of its major

rivals reported significant profit declines.

In the first six months of 1980 the pressure on the commercial banks' profitability continued and in some cases intensified speculation in some Frankfurt banking circles about the possibility that some of the banks may begin to look for economies through staff reductions. Rising labour and administration costs were identified by the Bundesbank as a key factor contributing to the pressure on banking profitability.

To some extent the pressure on the profits of the big banks is a reflection of the sharp decline in interest margins on international loans, a decline which has affected all the international banks to a greater or lesser extent and which, in the case of the German banks, has weakened one of the supports for the earlier growth of profits.

Undermined But of greatest significance in both the short and the long term has been the, by German standards, remarkable rise in

interest rates for this has undermined the long-established liability management and contractual lending policies of some of the banks. These policies were based on what has proved to be too ready an assumption of relative stability in interest rates and in the margin between the officially established Discount and Lombard rates at the Bundesbank and the rates which the banks charge for loans.

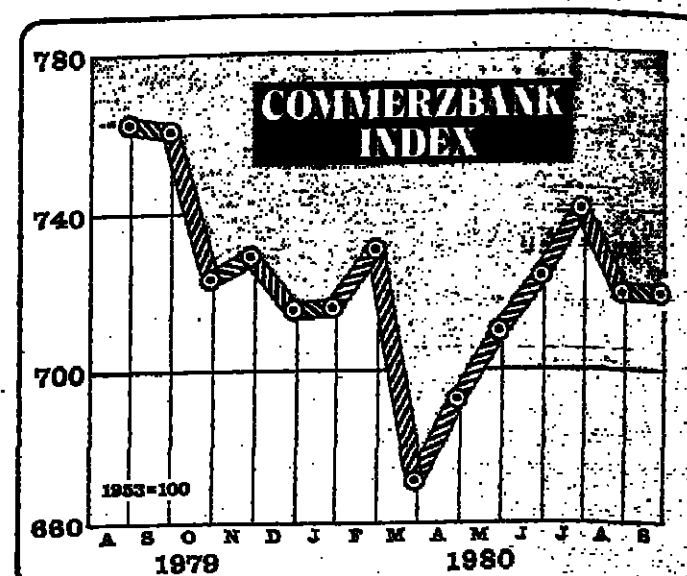
Put simply, the commercial and private banks have been caught out by shifts in the Bundesbank's monetary policy, shifts which have made it more risky for the banks to make medium-term loans at fixed rates at a time when the cost of funds to finance these loans has risen sharply. In some cases it seems the banks compounded their problems in this respect by assuming that it would not be long before German interest rates fell and the old relationships re-established themselves.

Thus, at one point in its examination of profitability trends in the industry in 1979, the Bundesbank comments: "Acting in accordance with the maxim 'expansion is more important than profit' they (the banks) seem in some cases to have preferred to accept a narrowing of the interest rate margin rather than forego a

transaction and thus possibly lose a customer." For their part the banks' dismay at the evolution of events is amply illustrated by the comment of Commerzbank in its annual report that: "What we should like to see during future tight-money periods, however, are changes in key interest rates to provide the signals without which a convincing monetary policy is inconceivable."

The problem for the banks now of course is that they can no longer be sure to what extent the traditional relationships will reassert themselves for so much is changing. They might normally expect that in a period of economic slowdown such as the West German economy seems to be headed for, interest rates would ease back quite quickly. It is already clear that this is not happening as quickly as in the past and there must be serious doubts about whether the easing of interest rates which the Bundesbank encouraged in September can be carried as far as might have been the case in previous economic downturns.

While a further loosening of monetary restrictions is expected, interest rates may be less if, as many observers anticipate, balance of payments problems create more persistent challenges for the Bundesbank



The index shows the share performance of 60 of Germany's leading companies

in managing the performance of the Deutsche Mark on the foreign exchanges. The continuing high interest rate regime in the U.S., the failure of that country seriously to come to grips with its inflationary difficulties and the influence this has on the foreign exchange markets may also inhibit the Bundesbank's freedom to manoeuvre. It is this perception which helps to account for European unease about the Federal Reserve Board's handling of monetary policy.

It is when they look at these longer term prospects, the difficulties in the international leading markets, the worrying change which could be taking place in Germany's own economic position and the intense competition in their home market, that West Germany's banks begin to ask themselves whether the 1980s will indeed be a much more difficult decade and what new policies they must pursue to overcome these problems.



FA.Z. -
The German national newspaper read by more top bankers and insurance managers than any other daily or weekly newspaper or magazine in the Federal Republic.

Source: LAE 1978. Readership analysis of decision makers in Germany's economy and administration.

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Man of innovation and influence

Stuart Fleming profiles Dr Wilfried Guth, joint chief executive of Deutsche Bank, who plays a prominent role in creating world banking policy.

WHEN THE bankers attending the International Monetary Fund annual meeting in Washington this month chose Dr. Wilfried Guth, the 61-year-old co-spokesman of the Deutsche Bank, as the most innovative European banker of the year, it underscored the growing influence of Dr. Guth on the thinking of his peers outside West Germany.

But the significance of the prominence Dr. Guth has achieved among his banking colleagues is only part of the story. In today's world the influence exercised by a chief executive of a major bank can stretch well beyond the boundaries of the financial markets. For the scope of a bank chief executive's business interests has been vastly expanded as the banks themselves have, since 1973, begun to play an even larger role in the financing of countries, and not just of the people and businesses in them.

The banks are well aware of the advantages of having a top executive who commands international prestige. Such a man, who can deal successfully in the Chancelleries and Finance Ministries of the world as well as in its banking parlours, is an asset which translates into bigger profits and more business; it is an added bonus if he has the diplomatic skills needed to exercise a leadership role in public.

From his background, Dr. Guth clearly has the range of experience for the prominent role he is playing in the emerging debate over how best to tackle the challenges facing the banking industry in a world of financial tensions. At present Dr. Guth is, in effect, joint Chief Executive of the Deutsche Bank, Germany's largest bank, sharing the role with Dr. F. Wilhelm Christians. He did not join the bank until 1968. Before that he had been the Executive Director of the International Monetary Fund for the Federal Republic and, from

1962 to 1967 a member of the Board of managing directors of the Reconstruction Loan Corporation, the agency responsible for administering Marshall Plan funds in Germany.

Dr. Guth began his banking career at Germany's central bank, the Bundesbank, where he headed the research department. At one stage last year it seemed a strong possibility that he might be nominated as the successor to Dr. Otmar Emminger, the Bundesbank president who retired at the end of 1979.

Leading role

The selection of Dr. Guth in the poll among his peers at the IMF, must inevitably be seen as partly the result of some of the ideas he has floated for dealing with the risks associated with recycling the protracted OPEC surpluses as a result of the surge in oil prices in the past two years.

The banks played the leading role in the wake of the first "oil shock" in 1973-74, financing the oil-induced deficits of developed and developing countries. It is in part the result of this (highly profitable) expansion that top bankers have been forced to take into consideration broader issues than merely the creditworthiness of a borrower when making lending decisions.

For, in the context of lending to countries, "creditworthiness" often comes down to a question of political risk and that can be influenced not only by the decision on whether to lend or not, but also by the economic and political forces at work in the world. Decisions to lend money in, say, Poland, Yugoslavia or Turkey clearly raise broader issues than what rate of interest to charge.

While the bankers were happy enough to play a leading role recycling surplus funds from the first oil shock many of them, including Dr. Guth, have been making it clear that the

risks are now too high for the banks to undertake such a predominant role again, at least in so far as lending to the oil importing developing countries is concerned.

If efforts to spread the burden are successful then the international agencies such as the International Monetary Fund and the World Bank and the West (hopes) the OPEC surplus countries will begin to play a bigger role. Such a development clearly impinges directly on the interests of the banks. The terms on which such lending is made available, in what circumstances and to which countries, are issues which will directly affect the risks and profits the banks are already running in some countries.

It is for these reasons that Dr. Guth, for example, sees the need for closer co-operation between the banks themselves as well as between the banks and the other prospective lenders, the IMF in particular. He is well aware that the banks' own freedom of action could be constricted by the circumstances in which such co-operation is undertaken, but already Deutsche Bank itself has been making special efforts to meet and discuss such issues with the top executives of other major banks.

It is against this background of the need for co-operation that perhaps the most controversial idea Dr. Guth has floated needs to be set. At a gathering of top bankers in New Orleans this year he suggested that the world's leading banks ought to consider setting up some form of joint support system to deal with crises which might threaten the world's financial system as a result of an important bank getting into financial difficulties for one reason or another.

Hitherto, perhaps because of their size, their initial dominance in international mar-



Dr. Guth: Banks must co-operate

kets, and the leading role which U.S. foreign policy played, it has tended to be one or two American bankers who have made the running in public in the debate over banking issues of this breadth. The emergence of Dr. Guth, a European banker prepared to take the risks associated with playing a leading role addressing some of (the West hopes) the OPEC as private, takes on an added significance in this context. But, as he himself points out, a banker must not forget that in the end it is the interests of his bank which he must serve, so it is important not to lose touch with the day-to-day business issues which his bank must face.

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Current account deficit presents policy problem

THE BUNDESBANK

STUART FLEMING

WITH A self-assurance which has become its hallmark the Bundesbank, the West German Central Bank, has over the past two years successfully steered a course through the unpredictable changes which have been sweeping both the international financial markets and the German domestic economy.

Its performance has at times stood in stark contrast to the all too public difficulties which the Federal Reserve Board in Washington has had in negotiating similar treacherous shoals. The contrast is an easy one to make and, put so baldly, unfair. Unlike the U.S. Central Bank, the Bundesbank does not have to contend with a political establishment (or a population) which seems too often to pay merely lip service to the fight against inflation while simultaneously fanning the nation's inflationary psychology—for example, in artificially stimulating a housing market which was already seething with inflationary expectations.

Again, unlike the Fed, the Bundesbank has not been faced with the surges in the domestic inflation rate which threatened to overwhelm the U.S. or with the rapid changes in an already more flexible financial system which has forced the Fed to wage a constant battle to keep abreast of innovation in the financial markets.

Having established that the problems the Washington Fed has had to deal with—political, economic, national and international—have presented a more formidable challenge to S. policymaking than simple comparisons allow, it remains

that, as in Washington so in Frankfurt, some fundamental adjustments have had to be made in Central Bank policy. That the changes in Frankfurt have attracted rather less attention owes something to a more pragmatic hand that has appeared to be holding the tiller.

It is interesting to note here that the continuity which has characterised Bundesbank policy through this period came even though leadership of the Central Bank passed out of the hands of Dr. Otto von Emminger, Dr. Emminger retired at the end of 1979 to be succeeded as head of the Bundesbank by Karl Otto Pohl, a man whose political and journalistic background has had something to do with the evident flexibility with which the Bundesbank has been operating.

Having said that, however, it should be remembered that the shift in German domestic monetary policy in the direction of what the Bundesbank, rather bravely in view of the experience in other countries, likes to call "fine tuning" began to come into effect under Dr. Emminger. This "fine tuning" of monetary policy has had a variety of manifestations but conceptually it has amounted to a greater distinction being made between monetary policy techniques aimed at curbing or enhancing the liquidity of the banking system and those aimed more directly at affecting interest rates.

Privilege

That the Bundesbank has been able to ride both of these horses at the same time at least to some extent, to tighten or ease liquidity without having to make fully compensating adjustments in administering interest rates, is a privilege it has enjoyed in part as a result of the greater rigidity in the German financial

system and in part because of public confidence that, by German standards, a worrying surge in the domestic inflation rate would not be allowed to get out of hand. The banking system, however, has already begun to adjust to some of the implications of the Central Bank's fine tuning policy which may mean that its days are already numbered.

The additional flexibility the Bundesbank has had as a result of fine tuning through such operations as repurchase agreements (used for the first time last year), foreign currency swaps with the banks and quotas on Lombard credit, for example, dealing with financial markets which have been shunted off course by unexpected developments, particularly overseas.

Abrupt changes in the direction of currency flows in response to, for example, the wide swings of interest rates in the U.S., sudden changes in the foreign exchange markets' assessments of the key dollar/Deutsche Mark exchange rate and some fundamental changes in the German economy itself are the most obvious challenges which the Bundesbank has found it easier to cope with by using its fine tuning instruments.

In the past months the fine tuning has been in evidence as the Central Bank has resisted demands for sharper reductions in its key Lombard rate beyond the half percentage point cut to 9 per cent in September, but at the same time to ease the liquidity in the banking system partly because of growing concern about the impact of too strict a monetary policy on the economy. By most assessments, the German economy began to weaken in the second quarter of this year and is now headed for a period of, at best, sluggish growth and perhaps even recession. The Central Bank has not

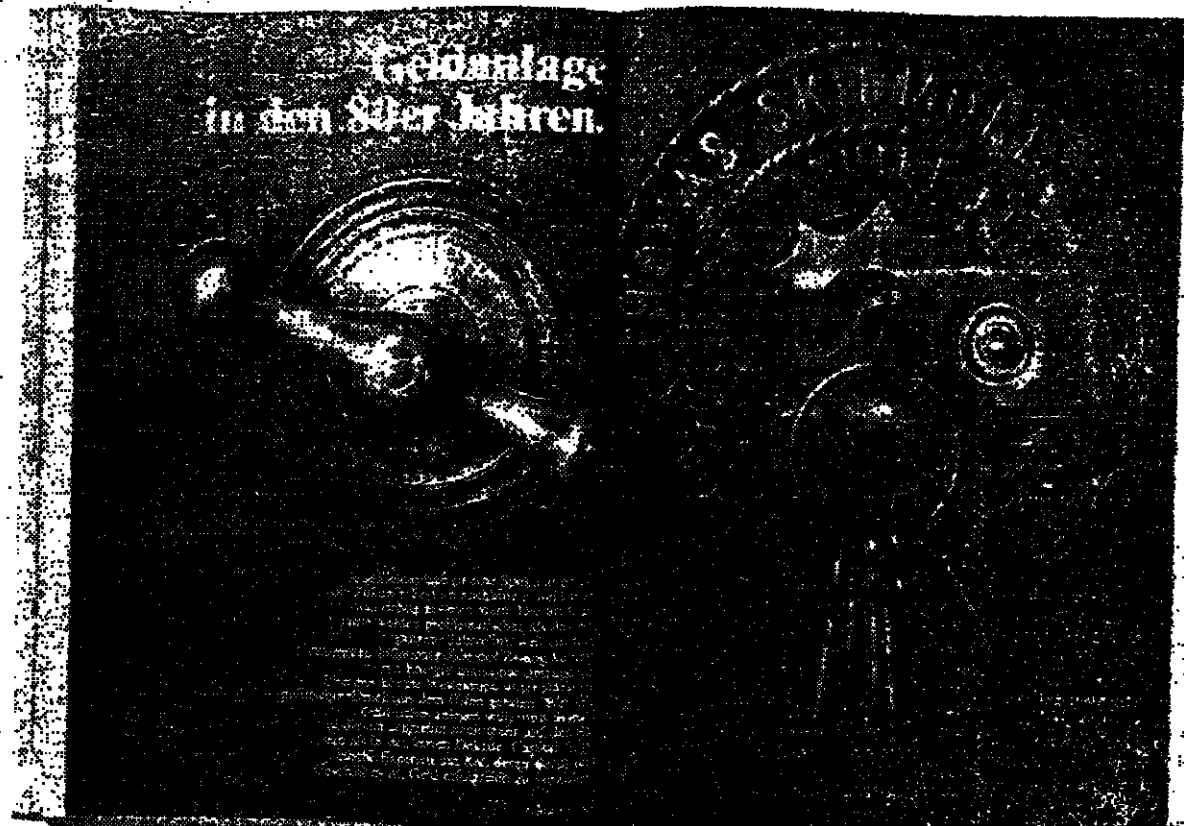
wanted to pursue too strict a monetary policy in view of the weakness of the domestic economy. On the other hand it has felt that its flexibility in encouraging a downward drift in short-term rates has been limited by the renewed surge in Prime has again risen to the 13½ U.S. interest rates where the per cent-14 per cent range. Against this background it is feared that too sharp a drop in German rates could stimulate a renewed outflow of currency and threaten the Deutsche Mark on the foreign exchanges.

Complication

It is in this area that the Bundesbank today faces a rather more difficult policy problem. The movement of the German current account into substantial deficit—a deficit as large proportionately as any the U.S. has run in recent years—presents the West German Central Bank with some new policy problems. The financing of this deficit will complicate the Bundesbank's policymaking. Ensuring that the Deutsche Mark does not become another chronically weak currency, however unlikely that may seem, is another. While German exports have remained strong the possibility has to be reckoned with that West Germany will find it difficult to get its current account into the black.

How the balance will be struck between the benefit which a steady (rather than a rising) Deutsche Mark might have on helping exports, and the greater difficulty Germany will have in such circumstances in avoiding importing inflation, is clearly of crucial importance. Political measures promises to be all the support for tough anti-inflation more necessary in the years immediately ahead. Fortunately there is no sign that the support will be lacking or that the Central Bank will be slow to call upon it in order to get inflation under control.

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Strong rally by long term bond market

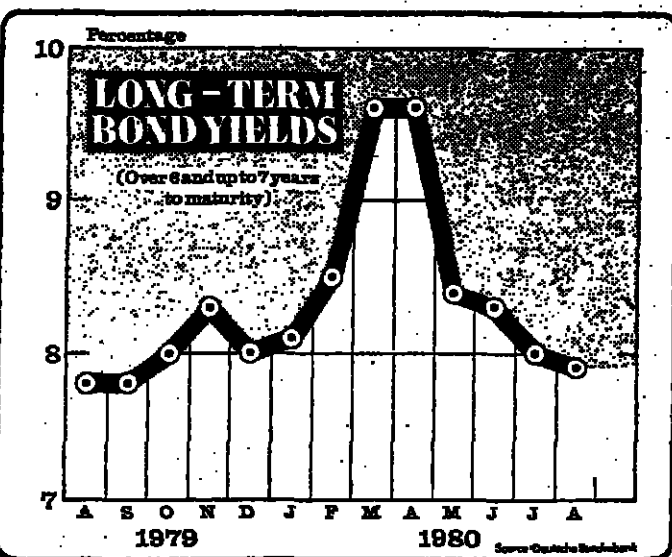
STOCK MARKET

STUART FLEMING

PERFORMANCE of the stock and equity markets in Germany over the past year again been dominated by monetary policy of the Bundesbank, the West German central bank. Through much of the period further tightening of monetary policy aimed at curbing inflation and coping with shifting shifts in capital flows a result of changing international circumstances, in particular U.S. monetary developments, presented the nations stock and bond markets with formidable challenges. Since May, however, the long-term bond market has rallied strongly, reversing the sharp downward movement in bond yields which took place in the opening months of the year. The rally in the equity market has been much less convincing, however, and there is little evidence to suggest that German investors are about to give up their preference for fixed income securities. Earlier this year, in March, the Commerzbank index sank to its lowest since 1975, hitting 667.6. A recovery since then has seen the index back to the 740.

Dramatic fall

During the second half of '79 short-term money markets had begun to move above the long-term bond yield, the term had stuck around the per cent mark peaking for a year at 8.4 per cent in November. By the middle of this year money market yields had moved above 10 per cent and the long-term bond yield to 8.6 per cent, producing a dramatic fall in bond prices. Significantly, this rise in yields meant that at no point in the current cycle have bond yields fallen below the officially assumed rate of increase in consumer prices which, on a year-on-year basis, appears to have peaked in May at 6 per cent. One says officially assured since there is, among men, and more especially German women in the street, considerable scepticism about whether official statistics reflect fully the prices which they are having to pay. Whatever satisfaction bond investors could draw from their rate of return, however, has been set against the capital loss they suffered until April. The significance of this may lie partly in the fact that amongst one investors who had to watch



the value of their investments slump were thousands of individual investors. In 1979, the tightening Bundesbank monetary policy had virtually driven the banks from the bond market.

Thus the Deutsche Bank dubbed 1979's bond market performance as the "year of the private investor." The banks, who in the previous four years had taken up around 50 per cent of the bond markets net sales, took only 8 per cent, while private investors took around three-quarters. The Bundesbank put households investment in bonds in 1979 at around DM 30bn, three times the amount of the previous year. Some of these investors will have learnt that fixed interest securities can be as volatile as ordinary shares.

These developments in the German stock and bond markets are in some respects rather similar to what has been happening in other nations' financial markets. Even though Germany has not suffered the same inflationary problems as, say, the United States or the United Kingdom, investors, including private investors, have been turning to the fixed income and bond markets and away from the equity market. The bond market has been playing a steadily increasing role as an investment medium.

Some investment managers maintain that the increasing orientation of investors towards income rather than capital gains producing investments reflects the relatively poor profits performance of many companies. There are, as one investment manager put it, only a handful of growth companies in the German economy. Moreover at a time when the economy is more volatile some of the nation's biggest concerns operate in highly cyclical industries such as chemicals, pharmaceuticals, capital goods and automobiles.

The past decade has seen a

steady decline in the earnings multiples at which the shares of many major corporations sell, from around 15 times to nearer seven or eight times. Indicative of the investors' preference for income, those among these corporations which have low dividend yields and payout ratios have been under pressure to improve dividend payments.

But at a time when there is concern about the level of profitability of corporations, and when equity capital is so expensive, interest in ordinary share investment has been further dampened by unease over what some investment managers fear has been an erosion in the ability of companies to maintain their equity base and finance investment.

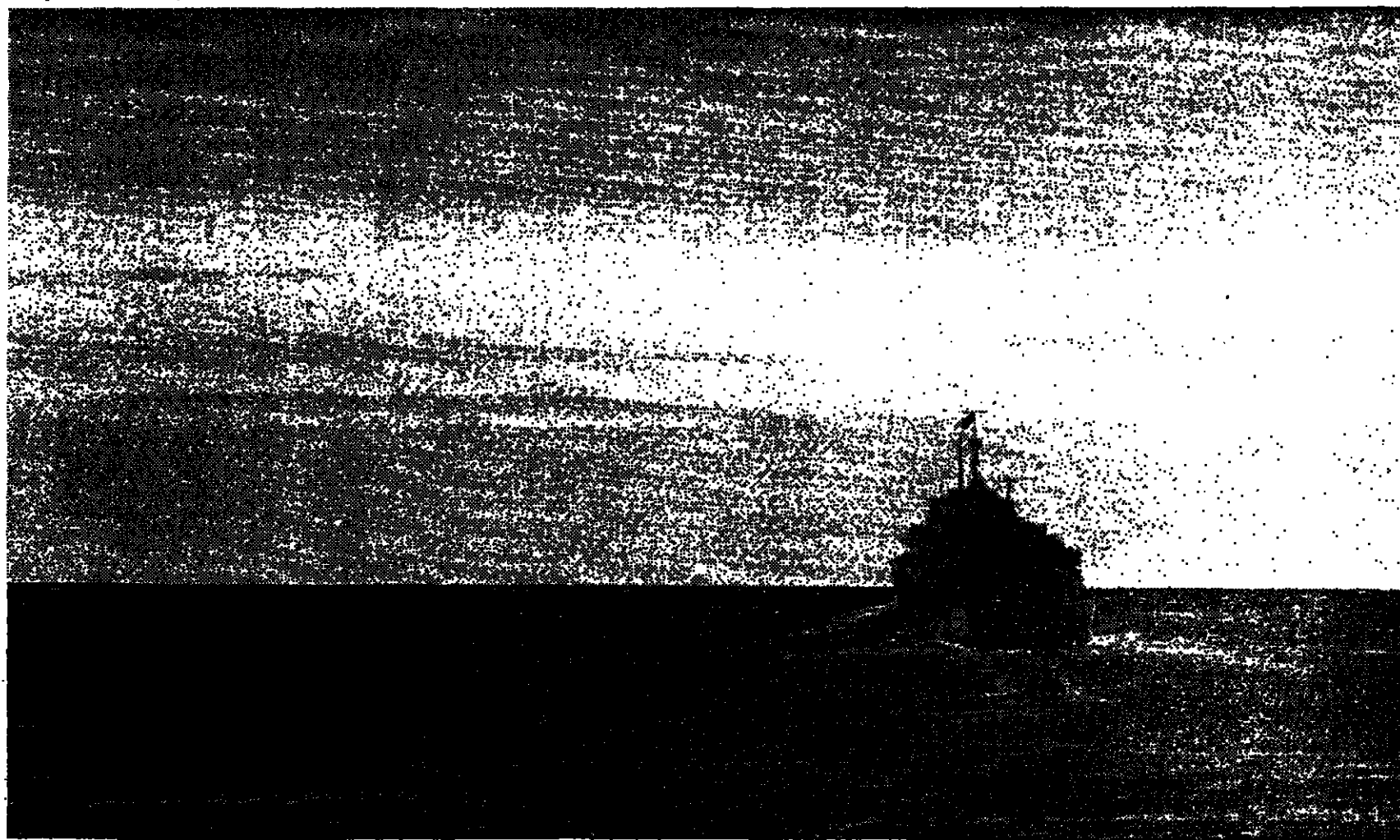
Latterly, investors in ordinary shares have also had to concern themselves about the evidence that a cyclical downturn in economic activity began in the second quarter.

Encouragement

In contrast, the bond markets have been encouraged since April by the initial easing of unprecedented U.S. interest rates, signs that inflation is slowing, and the cautious easing of monetary policy by the Bundesbank which lowered its Lombard rate from 9.5 per cent to 9.0 per cent in mid-September after earlier, more cautious steps to relax policy.

But investors are sensitive to the problems the authorities have in easing rates at a time when U.S. interest rates have begun to rise again, and when the nation has to be concerned about financing its balance of payments deficit and guard against the danger of an outflow of capital. Thus there are doubts about the extent to which bond prices can rise further after the strong rally they have seen since April which has taken the average yield down to the 8 per cent level.

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COMMERZBANK

WEST GERMANY XII

Flexibility in the face of challenge

MECHANICAL
ENGINEERING
JONATHAN CARR

THE mechanical engineering industry has long been—and is likely to remain—one of the cornerstones of West Germany's economic success. Indeed, there are signs that this sector in the 1980s will have a chance to do even better than it did in the second half of the 1970s. Can it grasp the opportunity, and what are the accompanying problems?

An attempted forecast first requires some definitions and a brief look at the industry's progress to date. The sector, composed very largely of small- and medium-sized enterprises, employs more than 14 per cent of the country's industrial workers, accounts for 11 per cent of its total turnover and no less than 18 per cent of its foreign sales. As the accompanying table shows, the mechanical engineering sector last year exported goods worth DM 56.4bn—that was 56 per cent of production—against an export share of 46.8 per cent at the start of the decade.

Put another way, West Germany's exports of mechanical engineering products exceeded its imports of these goods last year by DM 87bn. The importance for Germany's overall visible trade surplus—which totalled DM 22bn last year—thus hardly needs underlining. Nor is it surprising that West Germany retains its position as the biggest exporter of engineering goods in the Western world, despite strong and increasing competition from the Japanese in particular.

How do the Germans manage it? Herr Tyll Necker, Vice-President of the industry's National Association, naturally

gives a highly positive explanation, but few who have studied the industry will be inclined to disagree with him. He says, "the German mechanical engineering industry lives from the quality of its products, its top technology and inventive-ness, its progressive management and its reliability in fulfilling contracts."

It is worth adding that this sector—with its wide diversification from machine tools, office and information products to industrial plant and building equipment—also shares especially heavily in any general domestic economic upturn. For example, in 1978 more than 40 per cent of total West German investment went to the mechanical engineering sector. Followed, in second place, by the electrical engineering industry (22 per cent). It is, of course, also true that the sector is peculiarly sensitive to a downturn and that its export success has often served as a welcome balance to declining domestic demand.

That has partly been the story so far this year. In the first eight months, the value of engineering exports increased in real terms against January-August 1979 by 7.5 per cent—markedly faster than the rise in domestic sales. Mainly responsible for this result was a boost in real terms of 10 per cent in exports to other Western European countries, which have clearly been increasing their investment in new engineering products despite a gradual economic downturn and the high cost of credit.

Simultaneously, engineering imports rose in the first eight months by 14.1 per cent. Despite this high rate of increase, the difference in the base figure for measurement of export and import growth is such that the Germans are once again heading this year for a record surplus

on their engineering trade.

The orders position is less encouraging. In the first eight months domestic orders increased by 4 per cent in real terms against the same period of 1979, while foreign orders were up by 6 per cent. However, that foreign figure includes a downturn from June to August of 2 per cent—a taste of harder times to come.

At home, the test of the business climate in manufacturing industry carried out by the IFO Economic Institute of Munich showed an increase in pessimism in the late summer. The high cost of credit, unfulfilled sales expectations and sinking profit-turnover ratios are making companies less ready to invest, and the mechanical engineering sector will be among the first to bear the brunt.

However, there are two reasons for hope that the coming recession will not be either as severe or long-lasting as that in the mid-1970s. For one thing,

there are many who believe that the U.S. may be emerging from its recession at the turn of the year (and in 1979 West Germany sold the U.S. alone DM 4bn-worth of engineering products, making it the third biggest overseas market). Further, at home it is expected that the need for new investment to help master the energy crisis will prove so strong that this will continue to provide a backbone of demand throughout the general economic downturn.

Divergence

One result of this is likely to be an increasing divergence in the business position of individual branches within the whole mechanical engineering sector. Companies building construction and agricultural machinery, for example, may well suffer a business downturn in 1981, while those directly involved in energy investment may continue to do well.

What of the longer-term prospects? First, some of the prob-

lems, which are rather less apparent to non-Germans than are the impressive export figures. Despite its very high use of capacity in 1979 (86.2 per cent at midyear), the mechanical engineering sector could only register a net profit-sales ratio of 1.92 per cent. This is clearly less than the ratio achieved in other major German industrial sectors—including vehicle construction, chemicals and electronics—and far less than that considered normal for many foreign competitors.

This weakness in earnings is linked to another problem which affects most parts of West German industry but the mechanical engineering sector in particular. This is the relatively high level of borrowed funds of the German enterprise by comparison with a British or U.S. counterpart. It implies continuing high interest payments even when business is poor, and that is especially hard for small- or medium-sized businesses to sustain—just the kind of concerns

which form the backbone of the mechanical engineering sector.

Finally, this sector—at least as much as any other and more than most—depends on a continuous inflow of new, highly skilled and inventive management and labour. But figures from the German Institutes of Higher Education suggest that the engineering profession may have lost its drawing power for students, at least for a time.

All that said, it is worth emphasising that almost all the challenges facing this sector in the past have simply spurred it to renewed efforts and continuing success. For example, the high-flying Deutsche Mark which some felt might cause German engineering products to price themselves out of world markets, forced manufacturers to still greater technical development and delivery reliability. Foreign markets were not held without pressure on profits but they were maintained nonetheless and can be extended.

Looking ahead, West German

MECHANICAL ENGINEERING INDUSTRY

	1970	1978	1979
Labour Force (Millions)	1.2	1.1	1.1
Enterprises ('000s)	6,542	7,639	7,808
Production (Dm bn)	57.1	93.3	100.6
Turnover (Dm bn)	60.9	97.4	103.5
Exports (Dm bn)	26.7	54.8	56.4
As % of production	46.8	58.1	56.0
Imports (Dm bn)	8.6	16.4	19.1
As % of home supply	22.1	29.6	30.1
Gross fixed asset investment (Dm bn)	3.8	4.4	6.1
As % of turnover	5.8	3.9	4.3

industry is expecting an annual average increase in sales of more than 3 per cent, and an investment quota (as a percentage of sales) of more than 4 per cent.

It is sometimes suggested that only the largest enterprises can draw full benefit from the increasing pressure to research and innovation, and that the smaller companies will come off very much second best in the 1980s. But studies carried out by the IFO Institute confirm what may be suspected. Medium-sized companies can

clearly not match the research input of the big concerns, but they tend often to be quicker in putting the results of their research to practical work to gain sales success. Further innovation in the production process—particularly developments in micro-electronics—helping remove some of the disadvantages of scale which the smaller concerns have so far faced. Flexibility is the key word, and it remains unclear what the German mechanical engineering sector very well.

Healthy performance, but not immune from trouble

ELECTRONICS

KEVIN DONE

THE ELECTRICAL and electronics industry has yet to be as hard-hit as other sectors of German industry, such as motor vehicles production or chemicals, by the general slowdown in domestic economy, but recently the slower pace of new orders it has received shows that it too cannot remain immune

from the effects of world-wide recession.

Changes in the fortunes of the electrical industry usually trail about six months behind the movement in other major sectors, because of its place towards the end of the production pipeline, but most companies would probably have expected to have benefited to a greater extent this year from the Federal Republic's economic boom last year and in the first three months of 1980.

In 1979 output in the sector grew by some 3.5 per cent in real terms, a disappointing result given the average 5.4 per cent expansion across the whole

of manufacturing industry. Although the electrical industry is expected to do rather better than the average this year major companies such as Siemens and AEG, have already sounded the warning that the recovery of the first six months of 1980 cannot be expected to last.

The rate at which new orders have been flowing in has dropped behind the expansion of sales and production in recent months, which inevitably means that the expansion of activity in the sector, one of the most important branches in German industry, will have started to fall by the end of the year. New orders for the whole

of the electrical and electronics industry were up by some 7.3 per cent in the first months of 1980 compared with a rise of 10.9 per cent in the sector's turnover.

Last year while the value of new orders for electrical capital goods—boosted by the high level of investment spending by German manufacturing industry—rose by some 15 per cent, demand for consumer goods actually declined by around 3 per cent. Important segments of the consumer market are giving clear signs that the saturation point has nearly been reached, and manufacturers are having to pay increasing attention to innovating new products and to developing the replacement market.

Despite this general trend, however, electrical consumer goods manufacturers have enjoyed a small recovery in the first half of 1980 with the value of new orders rising by 3.7 per cent to DM 11.1bn compared with a marginal decline of 0.2 per cent to DM 10.7bn in the same period of 1979. More lively demand abroad, particularly for household appliances, accounted for most of the improvement, but there was also a small nominal increase in the new orders taken in the domestic market.

Increase

Supported by the cushion of new orders built up last year, sales of the electrical industry moved ahead strongly in the first half of 1980 by 11.2 per cent to DM 51.6bn compared with a rise of only 4 per cent in the first half of 1979. This year, according to the latest figures from the West German Electrical Industry Federation, exports have jumped by 14.4 per cent to DM 18.2bn in the first six months while domestic sales have increased by 9.9 per cent to DM 35.4bn.

The stronger performance of the electrical sector in the first half is also shown by the rise of some 9.3 per cent in the industry's production, which has meant that employment too has risen slightly by 1.6 per cent to some 998,000. In terms of the size of the sector's workforce electrical and electronics groups are the second biggest employers in the Federal Republic, after mechanical engineering. The recovery in the industry's fortunes means that since the summer of 1979 the number of jobs in the electrical industry has started to rise again slowly after a decline that lasted several years.

Obviously, however, this trend could be short lived, as the level of capacity at which electrical companies are operating across the industry has started to slip, falling from a peak of 85 per cent in March to 80.5 per cent by the end of June. It is again the weaknesses of consumer electrical and electronics products which are most exposed to the challenge of imports, particularly from the Far East, that is undermining plant operating levels. In the capital goods sector companies were working at around 84.3 per cent of capacity by the middle of the year, and new jobs are still being created in fast-growing areas such as computers and data processing.

For some time the most successful areas of the German electrical industry have been the manufacture of telecommunications and measuring and control equipment, which even in the second quarter of the year reported production increases of as much as 15.7 per cent and 12.8 per cent respectively. Production in the computer products area also climbed by 9 per cent in the second quarter, but activity in the area of power generation equipment appears to have reached its peak.

Whatever its problems in specific sectors, the West German electrical and electronics industry is still a major powerhouse of the economy and will provide one of the keys to the Federal Republic, raising its overall level of exports in order to cut back the massive deficit on the current account of the balance of payments. In 1979 it accounted for 18.6 per cent of free world electrical and

electronics exports—with a value of DM 35.2bn—second only to the U.S., which took 21.3 per cent of international trade in this sector.

Last year the Federal Republic was still holding a slight lead over Japan (17.8 per cent) in the export of electrical goods and equipment and its share of world markets in this sector was more than twice as large as that gained by France (8.9 per cent) and the UK (7.5 per cent). German electrical manufacturers' main markets are found in the neighbouring countries of Western Europe—46.3 per cent of exports went to other member states of the European Community and a further 18.6 per cent to EFTA (European Free Trade Area) members—while only a tiny penetration of the Japanese market has been achieved with less than 1 per cent of West German electrical exports going to Japan.

As with last year imports to the German market are still growing faster in 1980 than exports, and here Japan is inevitably playing a major role, particularly in some sensitive areas of consumer electronics which have been virtually taken over by imports from the Far East. Japan accounted for 10.3 per cent of electrical and electronics imports to the Federal Republic last year with a value of DM 2.3bn, against West German exports to Japan in this sector of DM 316m.

At a company level the development of the West German electrical and electronics sector has been marked in recent years by the wide disparity in the performance of the two biggest groups in the industry, Siemens and AEG-Telefunken.

Siemens has had its setbacks, chiefly brought about by the slump in power station building in Germany and elsewhere which has hit its important subsidiary Kraftwerk Union, but it has still grown strongly against fierce world competition. It is the fifth largest electrical group in the world and is expanding quickly its activities in the U.S.,

the world's most important market for electrical goods and equipment. Even its nuclear power station building activities have received a major boost this year with final agreement being reached with Argentina for the construction of the DM 1.5bn Atucha II power station.

Exhausted

By contrast, AEG-Telefunken was brought close to collapse last year after years of losses had virtually exhausted its financial reserves. Fighting against time, the group was given hope for the future by a massive financial restructuring which involved the pumping in of nearly DM 1bn of new capital by its shareholders (which now comprise virtually all the major banks in West Germany) along with further financial support from insurance groups and major West German industrial concerns.

The AEG rescue was an extraordinary example of the readiness of the private sector in Germany to pool its resources in supporting one of its allies. It was also a major demonstration of the power of the big banks in the Federal Republic to take the leading role in the formulation and practice of German industrial strategy.

This year, however, under new chairman, Herr He Duerr, the group has appeared to make some progress towards a return to profitability in 1980 although losses this year could still be as high as DM 200m. Major problems ahead of AEG, particularly foreign markets where urgently needs to increase local manufacturing presence. But the greatest question hanging over its future must be whether its recovery will be halted, almost before it has started, by the growing recession in West Germany and elsewhere. In its still weaker state it is far from being well prepared to live through a prolonged decline in demand for electrical and electronics goods in its domestic and foreign markets.

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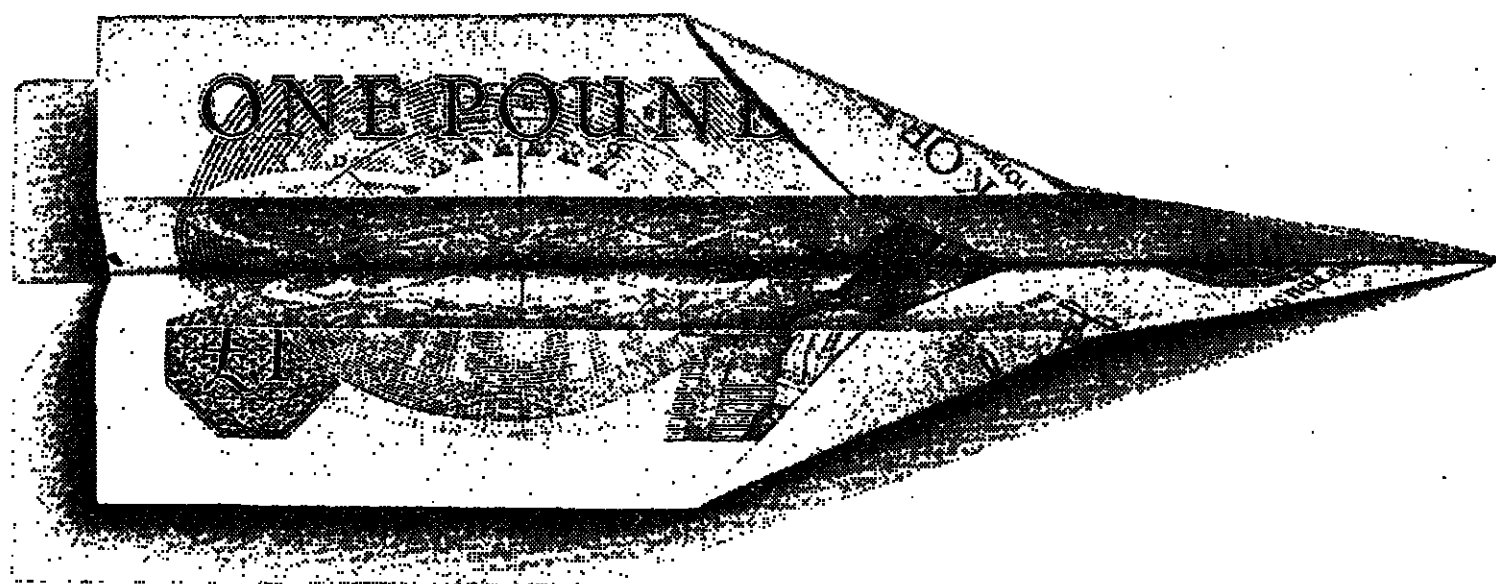
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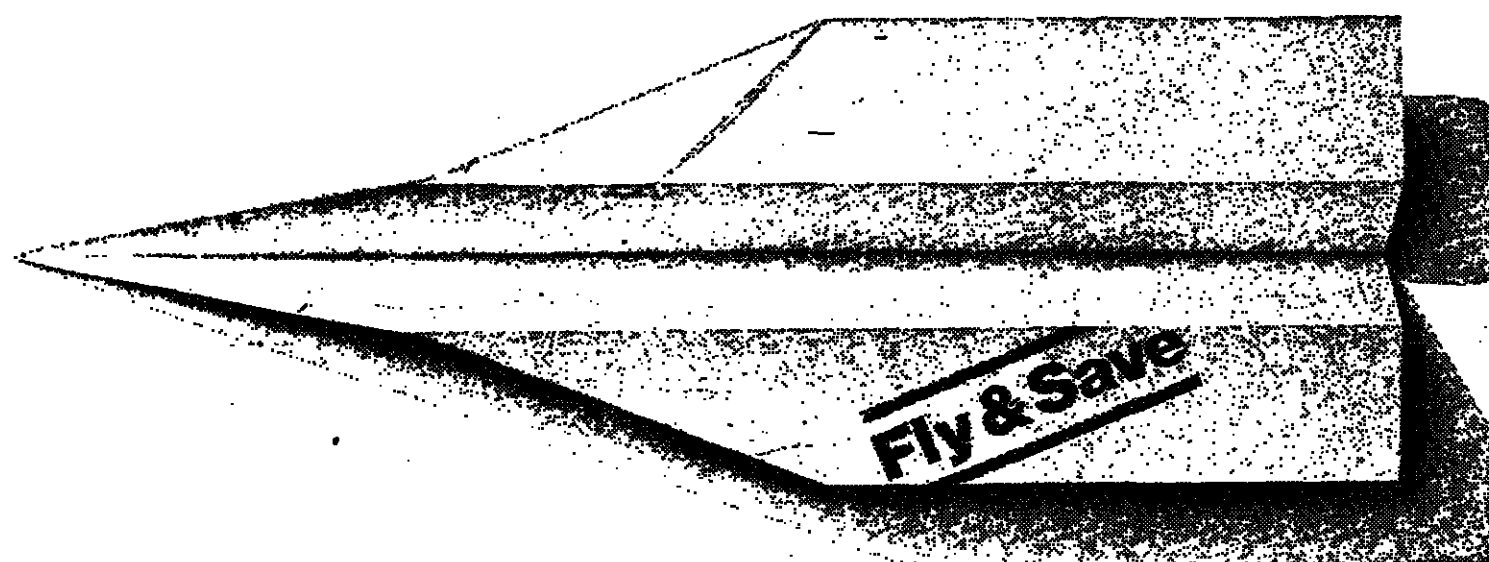
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Falling production expected to give way to growth

CHEMICALS

KEVIN DONE

THE SUMMER months have been unhappy ones for the West German chemicals industry as it has been overtaken by the recession hitting some of its most important markets. Falling sales and production have begun to bite deeply into profitability, output at some plants has sunk to such a level that several thousand workers are being put on to short-time and senior company executives are profoundly uncertain about the industry's immediate prospects.

After enjoying a record year in 1979, the West German chemicals industry, the largest in Western Europe and the biggest chemicals exporter in the world, had in any case been expecting only modest growth in 1980. After expanding production by 5.5 per cent in 1979 and 5 per cent in real terms in 1978, chemicals manufacturers had set their sights more cautiously this year on real growth of around 2 per cent, but even this target looks like proving over-optimistic.

Preoccupied

The volume of production will show a steeper fall as the size of the industry's turnover has been inflated by the higher prices imposed for many products in the wake of the dramatic surge in the cost of energy and oil-based feedstocks. Chemicals producers have become increasingly preoccupied with the problems of passing on the rapidly rising costs of raw materials to their customers especially as they see little chance even in the long-term of switching significantly to other feedstocks.

With the slump in demand in recent months from important customer sectors, such as the automobile, building and textiles industries, however, the most immediate goal has been to try to hold current price levels and to stop the price erosion caused by the fierce international competition in a shrinking market.

The sectors that have been hardest hit are precisely those which last year showed the strongest growth, product areas that are highly dependent on oil as a feedstock and where

customers have now chosen to draw down stocks rather than place new orders.

The recession has therefore chiefly hit organic chemicals, and especially plastics and fibres, dyestuffs and dyestuffs raw materials. Production of organic industrial chemicals, after rising in the first three months of the year, suddenly went into steep decline with falls of between 10 and nearly 17 per cent in the four months from April to July.

The fall is made to look particularly sharp because last year the chemicals industry enjoyed something of a freak year in which the normal seasonal dip in demand in the summer months did not occur. What chemicals executives are now asking themselves is whether this autumn the industry can pull out of the summer trough or whether the recession is going to deepen further.

Preliminary estimates from some of the sector's biggest concerns suggest that September has indeed proved better than expected; sales were only around last year's level, but at least the rut had been halted. Other companies are not so optimistic and are still not expecting much of a turn round until perhaps the second quarter of next year.

The fall in demand has had a drastic effect on the operating levels of some of the industry's plants. Hoechst, the second largest chemicals group in West Germany, has seen operations at its plants in the Federal Republic fall from 85 per cent of capacity in the first quarter to 80 per cent in the second quarter, and then to an average of only 65 per cent in the third quarter.

Some plants, particularly in the dyestuffs sector, have been working at levels as low as only 50 per cent of capacity and it is here that Hoechst has been forced to introduce short-time working for nearly 3,000 employees.

Bayer, another of the "big three" West German chemicals groups, has found itself similarly hard-pressed and has also put several thousand employees on to short-time working.

Whatever the pessimism about the short-term outlook, however, the chemicals industry is still confident that it can look forward to growth rates in the 1980s that will be above the average expansion of the German economy although it will no longer be able to outstrip the growth rates of most

other industrial sectors by the confident margin it did in the 1960s and 1970s. Most company planners appear to be building an average real growth of around 4 per cent a year for chemicals production into their strategies for the 1980s.

The German chemicals industry may not employ as many people—just under 550,000—as the other major industrial sectors, motor vehicle manufacture, mechanical engineering and the electrical and electronics industry, but it does rival them in terms of its annual turnover and it has certainly been the most aggressive in the post-war years in its drive for international expansion.

Last year the "big three" companies, BASF, Hoechst and Bayer—the offspring of the pre-war German chemicals giant IG Farben—were the three largest chemicals groups in the world in terms of sales, outstripping even international rivals of the stature of Du Pont and Dow of the U.S. and ICI of the UK. Bayer, perhaps the most internationally-minded of them

all, derives as much as 70 per cent of its annual turnover from foreign markets in the form either of exports or local manufacture abroad and Hoechst is not far behind with 68 per cent of sales coming from outside Germany.

BASF has traditionally been the member of the triumvirate which has kept closest to home markets—a factor determined perhaps by its much greater involvement in basic petrochemicals and oil, gas and coal production and processing—but more than half of its sales are also now found abroad and it is in the middle of a major reorganisation of management responsibilities at the top level of the company to take greater account of its international activities.

The big chemical groups started earlier than most to build up local manufacture abroad and the chemicals industry is far ahead of all other industrial sectors in West Germany in terms of the amount of money it has invested directly in foreign markets. Of the DM 33.8bn invested abroad

privately by German concerns and institutions between 1974 and 1979, no less than 14.7 per cent was accounted for by chemicals and pharmaceuticals companies, against 9.7 per cent by the nearest rival, the electrical and electronics industry, and only 5.7 per cent by the motor vehicle industry.

A group such as Hoechst, with sales worldwide expected this year of around DM 38bn, has an investment programme worth some DM 1.8bn in 1980 in progress and next year is planning to sanction future expenditure of some DM 2.1bn, of which 40 per cent will be spent abroad. Its main foreign investment targets are other West European countries, which will take some 19 per cent of the total, and North America, which has been earmarked for some 12 per cent of the total.

Already this year Hoechst had brought on stream two plants in Texas for the production of polyethylene and styrene monomer, which at a cost of some \$190m represent the company's largest single capital project to date anywhere in the

world. The completion of these plants inevitably means something of a shift in investment emphasis, but last year, North America accounted for some 24 per cent of group capital spending with West Germany taking only some 32 per cent.

Original research

The drive to establish such a strong presence abroad has come from the need to operate close to the customer in the world's biggest chemicals markets, such as the U.S., and also from the necessity of drawing on original research work from around the world, particularly for developing new products in sectors such as pharmaceuticals and agrochemicals.

But it is also true that foreign manufacture has allowed the German chemicals companies to get around some of the very high costs associated with manufacture in the Federal Republic.

Apart from the feedstock cost advantages enjoyed by the U.S. chemicals companies, West

German chemicals groups claim that labour costs in the chemicals industry in the Federal Republic last year were also 27.9 per cent higher than in the U.S. Hourly costs were \$19.20 against \$10.32 in the U.S. (The calculation is based on an average exchange rate of DM 1.83 to the dollar last year.)

West German chemical companies' labour costs first began to outpace the U.S. in 1973. Since then the gap has widened sharply, partly as a result of exchange movements, but also because of the rapid increase in West German industry's social costs. These are now double the U.S. level.

Despite the high level of investment abroad, the West German chemicals industry is also the biggest exporter of chemicals in the world from its home base, with exports last year at some DM 44bn—equal to 14 per cent of the Federal Republic's total exports. The industry has a healthy large surplus on its balance of trade with imports last year totalling DM 24bn. Imports this year, however, have been rising faster than exports.

A major part of these foreign sales come from sectors such as pharmaceuticals and agrochemicals, where German companies can bring the strength of their impressive research and development effort to bear. It is also sectors such as these which provide the industry with its most stable source of revenues and which are not so prone to wild fluctuations in times of recession as are the big commodity chemicals, such as plastics and fibres.

West German chemicals manufacturers are confident that the recession this time round will not be as serious as the one that followed the 1973-1974 oil price increases, but they have been disturbed by the setbacks of recent months.

"I don't want to disguise the fact that we are looking with some anxiety at 1981," says Professor Rolf Sammel, chief executive of Hoechst. "From the way the economy is going it is perfectly possible that we will begin the new year on the valley bottom and all will depend on at what point a revival starts."

Imports erode a traditionally domestic market

MOTOR INDUSTRY

KEVIN DONE

CONFRONTED by a flagging domestic economy, recession in important export markets and a concerted attack by the Japanese on their home sales, West German motor vehicle manufacturers are having to ask themselves some awkward questions about how they are to survive the rigours of the 1980s.

After five boom years, jobs in some parts of the industry have started to look distinctly vulnerable and imports have increasingly begun to eat into a market that has hitherto been marked chiefly by West German motorists' traditional loyalty to domestic products. The Federal Republic's car makers have had an enviable strong home market—less than a quarter of sales have fallen to importers—with a higher level of car ownership (one for every 2.7 inhabitants) than in any other part of Europe.

With success, too, in export markets—more than 50 per cent

of last year's record production of just under 4m cars were sold in foreign markets—the West German motor vehicle industry has built itself into one of the major pillars of the Federal Republic's economy. As many as one in seven workers in the country are dependent, directly or indirectly, on the industry for their jobs.

All manufacturers accepted that, after the prolonged boom of the second half of the 1970s, demand would have to weaken, but most have been taken by surprise at the sharpness of the fall in sales this year. What should have been a gentle cyclical dip in demand has been worsened by the fact that it has coincided with a widening world recession and that it is occurring at a time when the Japanese car industry has itself chosen to mount a major assault on the German market, the richest prize in Europe.

The turning point in the domestic market came as long ago as mid 1979, but a basic shift in activity in the first half of the year, combined with continuing strong demand from foreign markets, meant German car production still rose to a record level of 3.93m

last year. At the same time new car registrations within the Federal Republic only slipped back marginally to 2.63m from the peak achieved in 1978.

Registrations slump

But in 1980 it has been a different story. The motor industry has been the harbinger of a general slowing down in the West German economy and in the first eight months of the year new car registrations have slumped by 10.4 per cent to only 1.74m units. Matters have been aggravated for most domestic manufacturers, however, by the sharp incursions the Japanese have been making into this shrinking market, taking 9.9 per cent of new car sales from January to August as against a share of only 5.4 per cent in the same period last year.

Apart from the Japanese, only Daimler-Benz among the domestic manufacturers has been able to buck the trend by lifting its sales in the German market this year. The Stuttgart-based manufacturer of one of the world's most prestigious cars has been able to live off such a backlog of orders that it is cushioned from all but the

most serious recessions. At first most other German car makers thought that they too were largely insulated from the attack by Japanese imports. They had presumed, a trifle arrogantly, that their technological lead and the "superiority" of German products could still hold the loyalty of most German car buyers. Last year the ground gained by Japanese imports was indeed largely at the cost of other importers, chiefly the French and the Italians, but this year the German car manufacturers themselves have had to start making room for their Japanese rivals.

Herr Toni Schmücker, chief executive of Volkswagen, the largest car maker in the Federal Republic, admits: "We can no longer flatter ourselves that we have a clear lead in quality over the Japanese." With major car plants in West Germany shut down for the summer shut down for the summer, Volkswagen took as much as 15 per cent of the car market in August, an abnormal month perhaps, but it shows the direction in which the industry is heading.

Herr Schmücker accepts that at the moment the Japanese cannot be beaten on price but along with other industry leaders he is currently engaged in an intensive campaign to convince car workers of the seriousness of the problems the industry is facing and to prepare them for the "sacrifices" needed to try to close the gap.

Currently the car industry reckons that the Japanese can build a car for about 20 per cent less than a German company, giving them a big price advantage in western markets, even when the transport costs from Japan to Europe and the U.S. are taken into account. Hourly wage costs in the Federal Republic's motor industry (the basic wage plus social costs) amounts to around DM 25 against only about DM 15 in Japan. In addition the German car worker puts in fewer hours, about 1,600 hours a year as against just under 2,000 hours a year worked by his Japanese opposite number.

Absenteeism is also higher among assembly line workers in Germany than in Japan. The trade unions have already started to make it plain, however, that the car companies cannot expect to equalise their cost disadvantages at the cost

of the industry's workforce. The growing problems of competing with Far East manufacturers could make this year's wage round particularly difficult for the car makers.

In the first eight months of this year as the German market has flagged total imports have risen to some 481,950 cars, equal to 27.7 per cent of the market, compared with only 24.5 per cent in the same period last year. The chief response by German manufacturers to date has been to underline their commitment to the industry's very ambitious investment programme which is aiming both at new model programmes and at rationalising production methods with an increased emphasis on automation and the use of robots. The automobile industry expects capital expenditure to jump this year to DM9.5bn compared with DM7.4bn in 1979 and DM6.7bn in 1978. Expenditure this year will be about a third higher than the investment planned by the Japanese industry and it is clear that companies are bracing themselves to make a major

CONTINUED ON
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WEST GERMANY XIV

Quota threat from EEC unites producers

STEEL

ROGER BOYES

THE West German steel industry, after months of unruly price-cutting and hard-nosed competition, was shocked into unity earlier this month by the threat of compulsory production quotas being applied by the European Commission.

The evangelistic call of German steelmakers has long been: "Brethren, let us return to the way of the (relatively) free market, where the efficient can prosper and the lame ducks fall by the wayside." German steel producers, need it be said, are among the most efficient in Europe.

As a result, the prospect of the European Commission assuming emergency powers to impose compulsory production quotas on steelmakers genuinely shook the German industrialists. The Government too was concerned but it had for over two months been warning the industry that if it did not get its house in order the Commission would be driven into introducing compulsory measures, if only as a bridging measure until the middle of next year when a voluntary crisis cartel could be reconstituted.

But how long the current semblance of unity among German steel producers can last is open to question. They may now be prepared to toe the line on a voluntary cartel, if only to avoid something worse, but their inclination is to let it die a natural death.

Sceptical

The German steelmakers were sceptical about the Davignon Plan—named after its architect, the European Industry Commissioner—right from its inception in 1976-77. The idea of the scheme was to create market stability by agreed crude steel production levels, by a system of minimum price levels and by finished product steel targets. The Germans feared that once introduced such a scheme would become a permanent feature of the landscape and would be used by fundamentally inefficient producers—Britain and France, for example—to retain excess capacity and out-of-date structures, with the help of State Aids.

In the event, however, the breathing space provided by the Davignon Plan actually benefited the German producers, who seized the opportunity to restructure relatively painlessly. Nonetheless, it was clear to them that the necessary voluntary consensus had collapsed because of cheap imports and the shrinking market.

By the summer of this year the Commission had to suspend the last remaining enforceable minimum price for hot-rolled steel coil, the basic material for flat steel used by the car industry. Because of the declining market—induced by the recession and a general slowdown in the key motor sector—the Commission's minimum price was well above market levels.

Meanwhile holes were also being torn in the Davignon production quotas. After a sharp drop in consumption—but with production levels still roughly as high as in 1979, a boom year—the Commission announced that European steel-makers should agree to cut production by 13 per cent in the final quarter of 1980. Otherwise, it said, there would be chronic overproduction and prices would tumble out of control.

Initially most German producers were prepared to play

along with this but they insisted that such quotas would have to be fairly imposed and not applied in such a way that they penalised the German companies for their efficiency.

This was a counsel of perfection, as many producers were able to claim that they were a special case. The Italian steel industry said it was willing to cut its production but only from a much higher production base than in the second half of 1979, which it claimed made an unfair comparison. The net result is that Italian output is expected actually to rise or at least stay at its present high levels. Cheap Italian imports have this year penetrated much of the German market.

Meanwhile Kloeckner-Werke also claimed that it was being discriminated against by the production restraints of the cartel. The German producers had agreed to fix their quotas in relation to the 1974 level—a good year for all the German companies apart from Kloeckner-Werke. The latter at that time had not got its new Bremen plant fully on stream.

As a result, bound by "artificially low" quotas, the Bremen plant is only able to work at a fraction of its true capacity and is losing the company an estimated DM 100m a year. Kloeckner thus felt no longer bound by the quotas and there ensued a row with the German Iron and Steel Federation, which insisted that the company provide its exact production figures.

This rift appears now to have been at least temporarily healed. Kloeckner is back in the fold—compulsory quotas would almost certainly be more damaging than a voluntary regime—and is prepared to discuss the formation of a revised and more realistic form of voluntary cartel. Apart from giving Kloeckner higher production quotas, this new cartel—said Dr. Herbert Glensow, Kloeckner chairman recently—could have a joint European sales office. That would go some way towards eliminating accusations of price-cutting.

The fact is that for all the talk about free markets a reformed voluntary cartel is very much in the German companies' interests, at least until demand picks up again, as hoped, in 1983. But as Dr. Gerhard Ollig, the Economic Ministry's steel expert, indicated in a recent speech, European steel producers have to accept that there has been a structural shift to Third World steelmakers and that there has to be considerable rethinking about the role of European steel.

This points in only one direction—further rationalisation, streamlining and diversification, increased research into new uses for steel and new energy-saving techniques. If the voluntary cartel can allow the producers to reorganise their workforce without mass redundancies, then so much the better.

Rationalisation within the German steel industry has begun to take an interesting new shape. Thus Krupp and Hoesch are investigating ways of streamlining future production and eliminating production overlaps. It has been suggested, for example, that Hoesch might be prepared to shed its old-fashioned Siemens Martins plants much more quickly than planned and thus allow Krupp to jump in to take over some of Hoesch's crude steel production customers. In return rolled steel orders that normally would have been placed with Krupp could be placed with Hoesch.

Thus two arch-rivals, in the face of the steel crisis, have come to a remarkable live-and-let-live agreement. There is, they stress, no question of a

merger and the companies will compete in the special steels area (which is playing an increasing role in Krupp's product mix).

These plans are still fairly tentative but many steel producers have been using the revival in steel demand to put their financial houses in order. This in turn will make diversification and consolidation of existing non-steel subsidiaries that much easier in the 1980s. Thus Salzgitter, the State-owned steel group, managed—thanks to good results in the crude steel division—to reach a balanced result last year for the first time in years. Thyssen, the largest and most successful German steel group, increased profits from DM 100m DM 167m and Kloeckner used the pick-up in steel demand to launch a major capital reorganisation which it believes could take it out of the red this year and perhaps enable it to resume dividend payments next year.

Unease

While most German steel companies genuinely welcomed Kloeckner's capital write-down and restocking, there is still a lingering feeling of unease about the way it behaved. Dr. Detlev Rohwedder, chairman of Hoesch, sharply criticised Kloeckner, for example for undermining the "crisis cartel."

But Herr Rohwedder himself has come in for criticism from other German steel companies. After some intensive lobbying by Herr Rohwedder—a former State Secretary in the Economics Ministry—Kloeckner recently given cheap loans worth DM 340m by the Federal Research and Technology Ministry and the State of North Rhine-Westphalia. The loan will go towards the replacement of the three Siemens Martin plants by a single new oxygen-cooled plant.

This form of subsidy is not in itself remarkable, certainly by the standards of other European companies. But Hoesch critics have claimed that the company could have carried out the same replacements in the early 1970s at much less cost and without resort to the Government.

German steel companies have long complained about the subsidies given to their European competitors—subsidies they claim are being used to prop up outdated structures and excess capacity. Yet German producers have now become surprisingly dependent on various forms of Government

assistance—the Hoesch case was simply a more blatant example than most.

Thus steel concerns are entitled to providential State grants towards the installation of blast-furnace filters, a statutory requirement. At least three major steel groups have diversified into shipbuilding and as a result all have benefited from a DM 600m Government shipyards programme and from other coastal State relief schemes.

Nonetheless German steel companies have not been slow to cut back capacity and to exploit the much-valued "breathing space" offered by the Davignon plan. Since 1976 the industry has cut back crude steel capacity by some 160,000 tonnes and 120,000 jobs have gone—largely through natural wastage since the mid 1980s. This has made for a generally efficient industry.

But it is still extremely vulnerable to the fall in consumption in Europe and the USA—a situation further complicated by the U.S. anti-dumping suits invoked against European producers this year—and by import penetration. Imports from non-EEC countries especially have grown over the past years.

The industry is still reckoning on a recovery in demand in 1983-84 as the Western world moves out of recession and cyclical trends favour demand from sectors such as the construction industry. But how far the industry to survive in the meantime? Prices will stay low, especially given the current uncertainty surrounding the Davignon scheme, and costs also on the increase (most steelworkers settled for around 2 per cent in the last wage round). Wage claims are expected for in excess of 10 per cent this winter.

Above all, the banks are beginning to be concerned and indeed have started to play a large role recently in persuading the German steel companies to reconcile their differences. In the one hand the banks estimate that German steel production will fall by only 2m tonnes in 1979 to reach 44m tonnes a year. On the other, bank clients in the motor, shipbuilding and construction industries—major steel consumers reporting troubled times. Steel prospects of a 1974-type recovery are looking slim. Clearly the time is approaching when bankers will think twice about underwriting further investment in capacity.

Motor industry

CONTINUED FROM PREVIOUS PAGE

financial effort to close the competitive gap in the 1980s.

While car sales have fallen this year hitting manufacturers and components suppliers alike, there has been one bright spot on the scene. This is continuing strong performance of German commercial vehicles which so far have shown little sign of being overcome either by the slowing down of the domestic economy or by the recession abroad.

The onset of the recession and the advent of higher energy prices has had an important impact, however, on the car market and especially on sales of larger saloons of two-litre capacity and above. The greater consciousness of the importance of fuel economy has brought about a substantial shift in buying patterns which has hit three manufacturers in particular, Ford, Opel, the West German subsidiary of General Motors, and Audi, the Volkswagen subsidiary.

Both Opel and Ford have been forced to cut back their workforces in recent weeks after long periods of short-time working, and Audi too has had to go in for short-time working this autumn as domestic sales of its Audi 100 model have plummeted by 33 per cent in the first eight months.

The slump of sales of some of the larger Ford and Opel models has been equally dramatic. New registrations of Opel's Rekord fell by 34 per cent in the first eight months of the year from 162,108 to 106,801. Sales of the Ascona fell by nearly 33 per cent while demand for the larger Commodore and Monza models slumped by around 65 per cent. At Ford reported, sales of the Granada in the eight months to the end of August were 52 per cent below last year's level, and Capri registrations dropped by 41 per cent in the same period. The plunge in sales of the larger cars has led to the first redundancies in the German motor industry for several years. First Opel cut 5,900 jobs from its Rüsselsheim works near Frankfurt and this was followed

in the late summer by Ford move to cut the workforce at Cologne and Düren plants 6,000. Both companies have employed a similar formula early retirement and voluntary redundancies, measures that have cost Opel around DM 90m and Ford about DM 135m.

Limited

The profitability of both companies has plunged as dramatically as their sales and Opel has warned that it might well turn in a loss this year. The drop in profits is coming at a particularly sensitive moment when both companies involved in major investment programmes. Opel is spending some DM 6bn from 1979-1981 on new model programmes as the rationalisation and expansion of production.

Ironically for Opel while has been laying people off in the production lines of its larger models, it has been unable to satisfy demand for its new small car, the Kadett, which was launched last year. Output continues to be limited to new components plants have been commissioned.

Ford, on the other hand, suffered from its lack of a competitor in the one part of the market which has shown some life in recent months, namely the smaller medium-sized models, which have been dominated by Opel's Kadett. The launch of the new Ford Escort, but the new model did not come a moment too soon and its success is crucial to Ford's survival and its chance of winning back some of the dwindling share of the market.

Germany's motor industry, far from pessimistic about chances in the 1980s and in a home market it still expects average growth of around 2 per cent a year over the next decade, despite the present recession, Opel has already suggested that the lowest point of the decline of demand may have been reached and it was a demand by the strength of demand in July and August.

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هنا من التوصل

WEST GERMANY XV

The Government hopes that economy of scale will allow the industry to compete more effectively in the world market, but its long-laid plans have yet to come to fruition.

Merger still shuffling to conclusion

AEROSPACE.
ROGER BOYES

LOWLY, step by painful step, West Germany's two leading aerospace concerns are edging towards a long-awaited merger that will, in Bonn's view, create an internationally competitive aircraft industry. That was the story three years ago and it is the story now, rarely can a merger have been so tortuous, so tear in its conception, and yet so baroque in its implementation.

The idea was simple enough. The West German Government saw a north-south imbalance between the Bavarian-based Messerschmitt-Bölkow-Blohm (MBB), thriving on a steady flow of military contracts, and the Bremen-based Vereinigte Flugtechnische Werke (VFW), struggling to keep alive an unstable partnership with Fokker of Amsterdam.

Bonn feared the worst — jobs were threatened in the north, there was unnecessary and costly duplication of work between MBB and VFW, and the Government was becoming increasingly involved financially in VFW. The answer was a merger, with MBB taking over VFW, probably for a token sum, and then moulding the two companies into a dynamic new European concern.

It was, as they say in airport jargon, all systems go. But, as regular fliers will know, that is the point where problems begin.

Marriage

In the first place VFW had to free itself from its troubled marriage with Fokker — but the two sides of the partnership agreed for more than two years about how to assess the financial abilities of the two sides and valuing their assets.

After 10 years of partnership, this was far from easy and far from comfortable, as both sides had become closely intertwined. The VFW-Fokker group consisted of holding companies in Holland and Germany which each had a half-share in a central holding company based in Düsseldorf. This in turn ran operating companies in both countries.

Under the terms of the breakup, Fokker was to pay back half DM 83.6m loan which was taken up to meet the cost of ending the ill-starred VFW-614 programme. Only 16 of these short-haul aircraft were sold and they provided the clearest, most concrete evidence in favour of

a divorce. Fokker however will not repay Government guaranteed credits of DM 280m taken up to finance the VFW-614 production. Moreover, it is only prepared to pay back its half of the DM 83.6m loan if it achieves profits of at least F110m a year between 1980 and 1987.

An expensive divorce then, in terms of continuing liabilities for VFW and for the German Government. Yet the difficult disengagement negotiations were paralleled by the astonishing success story of the European Airbus A-300, which has seen sales soar even in relatively untapped markets like the Middle East. Against all expectations, VFW's star began to rise — last year profits were pushed up from DM 2.53m in 1978 to DM 9.79m thanks to Airbus sales and to contracts landed by Erno, its space engineering subsidiary.

This had two main consequences. In the first place it made VFW shareholders extremely reluctant to sell out cheaply to MBB, and secondly, it ensured that there would be a long bargaining period with MBB, not just about price but also about future division of labour.

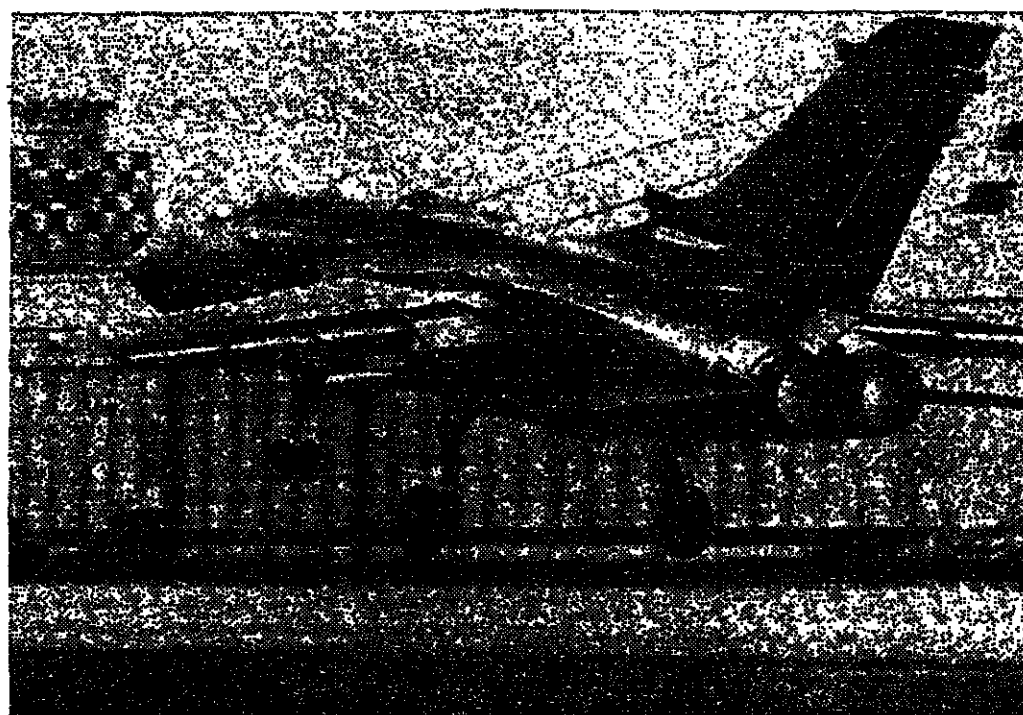
Net effect: yet further delays on the road towards a merged concern, and growing irritation on the part of the Bonn Government.

The original notion was for two of the principal VFW shareholders, United Technologies and Krupp, to sell their stakes to the other major shareholder, the City of Bremen. Bremen would then sell the lot to MBB and the merger would be complete.

Although this idea, conveyed by the Government, had a certain elegance, it overlooked the interests of United Technologies and to a lesser extent those of Krupp. It was automatically assumed that UTC would sell out but in fact its first reaction was to hang on to its stake (26.4 per cent), and to negotiate a part in the new European aerospace concern, especially building up its helicopter co-operation with the German aerospace industry.

More problems for the Bonn Government: the last thing it wanted was a major American stake in the new merged company which after all was supposed to compete with the U.S. manufacturers.

Intense negotiations between the main VFW shareholders followed and the result was a deal which seemed to bring the merger that much closer. Krupp (which has a 35.2 per cent stake in VFW), UTC (with its 26.4 per cent stake) and Bremen (with a 38 per cent stake) would



The first pre-production Tornado multi-role combat aircraft on its first flight at MBB's Manching facility

sell VFW to MBB in return for a 10 per cent holding in the new concern. The asking price would be determined after an independent valuation had been made of VFW, and Krupp would co-ordinate all three holdings.

This still did not solve the dilemma of a U.S. presence in the new company even if Krupp co-ordinated the 10 per cent holding and held a supervisory board seat — its long-standing wish. United Technologies could still theoretically cause difficulties if, for example, it came to the strategic planning of a helicopter sales drive in the U.S.

Side-stepped

This particular hurdle was crossed, or at least side-stepped, last month when UTC agreed to sell its VFW stake to Krupp.

Krupp, the steel and engineering group, now holds 61.6 per cent of VFW and is in a position to dictate terms to MBB.

The consensus of opinion is that it has made the merger easier and has almost certainly guaranteed Krupp that coveted seat on the supervisory board. But why should United Technologies have caved in so suddenly after holding part of VFW for some 30 years?

UTC itself issued a statement full of broody altruism: it no longer wanted to stand in the way of the foundation of the new German aerospace industry. There are likely to have been two other motives. In the first place, it realised that some of its more limited objectives — such as helicopter co-operation with Europe — could be achieved just as well through the vehicle of joint ventures with MBB.

Secondly, the valuation of VFW seemed set to be a generous one and UTC, for the first time in several years, looked as if it would get a good price for its 26.4 per cent stake.

The price however will not be finalised until both MBB and VFW agree on a mutually acceptable valuation of the Bremen company. This then is another sticking point in the merger negotiations. The inde-

pendent valuation puts VFW's worth at DM250m, but MBB is keen that the costs of the divorce from Fokker are taken into account and that the asking price be pushed below DM 200m.

This has led to considerable bitterness in the recent phase of the merger talks which have otherwise been distinguished more by fatigue than acrimony. MBB has repeatedly said this summer that the merger is on the brink of being clinched and that the valuation costs are a mere formality. VFW's shareholders however feel far more strongly about the matter and fear that MBB is trying to stampede them into accepting a lower price.

Indeed the Bonn Government has been putting a degree of pressure on Bremen — as a VFW shareholder — to agree soon on a valuation and speed up the proceedings. But Bremen has other worries — above all it is concerned that VFW might be excluded from the design and systems management in the new merged concern. If VFW becomes simply a production adjunct of MBB, dependent on whatever surplus contracts can be steered its way from the Munich-based company, then jobs will be threatened and some of its undoubted technological expertise could well be lost.

These then are the two principal problems now facing the merger — can VFW and MBB agree on a common evaluation of VFW's assets and can VFW secure an equitable division of labour within the merged concern?

MBB executives are talking of the merger being clinched by Christmas, but the same cry was heard (albeit from different quarters) last summer and the summer before.

One nagging doubt remains, especially among VFW executives. Even if it comes off, will it all be worth it? The combined turnover of MBB and VFW will be in the region of DM 3bn — not much compared to the U.S. giants with whom they will be competing. The concern may not be all that profitable in the start

up years. MBB recorded DM444m worth of net profits last year and VFW pushed its profits up to DM98m, but it is not at all clear that profit growth will be able to keep pace with the substantial sales increases expected.

Will the concern be flexible enough to respond to market developments, especially given the strong state interests in the two companies? Apart from Bremen's stake in VFW, both Hamburg and Bavaria have a 43 per cent share in MBB. All of them will be sharply watching to ensure that any streamlining of production does not create an excessive amount of unemployment in their states.

The Bonn Government does not view this as a major problem and serves that both Hamburg and Bavaria have shown themselves to be particularly accommodating shareholders in the past.

Rising costs

The only other shadow over the future of the new concern is one shared by other European aerospace companies: that of rising material and design costs on the one hand and sharp overseas competition on the other. The soaring costs have been felt in both civil and military divisions — with the Tornado multi-role combat aircraft price reaching an estimated DM 67m compared to DM 15m, when it was conceived 10 years ago. Moreover the European Airbus is not expected to break even for some years yet.

The West German Government is under no illusion that the merger offers a panacea, but the immediate answer to the cost problem is in size, that is both economy of scale and breadth of ambition.

The new industry, Bonn hopes, will be able to look beyond the negotiating details of the past three years and seize on growth sectors such as space research and satellite development — exploit them and propel Germany into the top league of European aerospace concerns.

Production continues to rise despite incentives

AGRICULTURE
JOHN CHERRINGTON

THE British Government has been pressing for some time for EEC member states who create surpluses which become a charge on Community funds to carry some of the load themselves. These sentiments did raise an echo in West Germany a year or so ago.

Herr Josef Ertl, West German Minister of Agriculture, was then making statesmanlike noises when attacking the manifest disadvantages of the Common Agricultural Policy. At the same time Baron Heeremann, leader for 10 years of the German Farmers Union (DBV), was suggesting that some discipline should be imposed on chronic overproduction. However, the approach of the elections appears to have muted these sentiments, and in any case, West German farmers have reacted to all such exhortation and even financial inducement by producing more and more.

This is particularly the case in dairy farming. There has, it is true, been a significant reduction in the number of producers, but there has been almost no reduction in the number of dairy cows and production continues to increase. In fact from the period January to July 1980, West German milk deliveries to dairies rose by 5 per cent continuing a trend which has been evident for the last decade.

This is in spite of the fact that German farmers were foremost in taking advantage of the EEC schemes for going out of milk production by means of which, since 1977, some 500,000 cows were removed from the national herd without, however, making any difference to the total census figure. What seems to have happened is that the cows removed were either passed on to other farmers or

their departure coincided with rearing increasing numbers on remaining farms.

There was a time when Herr Ertl was claiming that, unlike his counterpart in the Netherlands, where much of the milk is produced from compounds the German dairy farmer was producing almost entirely from his own farm resources of fodder. But by 1978 the production of cattle compounds had increased by 60 per cent over 1975.

Yield per cow has been increasing too, and once the existing breeds are gradually replaced by the Black and White Holstein, yields will undoubtedly approach those of Holland and the UK, where the proportion of these cattle is over 70 per cent as against 44 per cent in Germany.

Protection

The certainty of increasing dairy production is assisted by the strength of the D Mark, which provides a measure of protection through the monetary compensation system. This at present means a levy of 9 per cent on farm imports from other member states. This is bitterly resented by traditional exporting countries such as Holland and Denmark, who believe that Germany should take more European Community products. But this concern is not confined to dairy products.

The German pig industry is very well developed, with about three times the numbers in the UK. Germany is still a net importer of pigmeat, but the scope for expansion is there, together with the fact that very large quantities of potatoes are grown for feed, a cheaper ingredient than cereals. Pig keepers are also protected by the MCA system.

Cereal growing has in no way been limited by the small average farm size. Overall production is the second highest in the Community and in 1978 reached an all-time high of 23.9m tonnes. Part of the

improvement has been because of the price incentive, again thanks to the MCA which enabled new techniques of cereal growing to be practised, particularly in Schleswig-Holstein.

But now that these methods have been adopted over the whole country, it is probable that the consequent overproduction will be impossible to reverse. Once farmers everywhere have learned high-output farming, any disincentive by means of lower prices would probably stimulate them to produce even more.

It is frequently said that the problem of German and EEC overproduction for that matter is the stimulation offered by the high prices needed to support the mass of very small farmers which make up the whole. Once the small and part-time farmers are eliminated, by going into industry or retirement, a leaner, harder agriculture will take its place: one which will be able to accept lower prices and so lessen the cost of the CAP.

This is a fallacious argument. Already some 80 per cent of German production comes from a minority of full-time farmers and it is from this sector that the increased output will come. The part-timers, with secondary jobs to cushion them, are probably less driven by the necessity to force production to the maximum to make ends meet. Where they fit into the German scheme of things is to provide a stable social base to the population as a contrast to the increasing industrialisation in the towns.

Nor is it sensible to believe that the elimination of the MCA protection would cause a fall in output due to the competition from other member states. From my observations, German Agriculture is inherently just as capable of viable production as that in any other member country. The MCA arrangements simply made things rather more easy for farmers, but they would soon adapt themselves to changed circumstances.

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WEST GERMANY XVI

On this and the next page, Financial Times writers profile six leading figures in West German affairs.

Dr. Gerhard Stoltenberg

DR. Gerhard Stoltenberg, Premier of Germany's northernmost State, Schleswig-Holstein, exudes a sense of self-discipline and well-brushed sleekness. But behind the cool facade there is a glowing ambition which radiates from him like light through a lampshade—he is a man on the move.

The silver-haired politician now stands at a crossroads in a career that has been studded with clever and politically expedient decisions. Should he make a bid for the leadership of the Christian Democratic opposition now that Herr Franz Josef Strauss has been defeated in this month's general election? Or should he mark time in Schleswig-Holstein, stand clear of the in-fighting and throw in his lot with the bloodied successor to Herr Strauss?

It is significant tribute to his talents—in a party not exactly brimming over with talent—that a third question does not have to be asked—should he give up his ambitions in Bonn and be content to be a provincial politician? A definite no is the answer to the unasked question—Herr Stoltenberg would clearly like to rise to the top of the Christian Democrat pole. The only uncertainty centres on tactics and timing.

Dr. Stoltenberg has been an up and coming politician now for more than two decades. He was once the youngest member of the Schleswig-Holstein Parliament, the youngest member, at 29, of the Federal Parliament, the youngest member of the Cabinet (as Science and Research Minister) under Chancellor Ludwig Erhard, chairman of the CDU youth organisation at the age of 27. Now he is 52 and still has time on his side.

The problem is: did Dr. Stoltenberg wreck his immediate chances of party leadership—and ultimately perhaps the Chancellorship of Germany—by lining himself up so closely with Herr Strauss in the latest general election campaign?

Once viewed as a rival to Herr Strauss, Dr. Stoltenberg was wooed over to the Bavarian side in early summer. By the end of the summer, Herr

Strauss was talking of Herr Stoltenberg as Germany's next Vice-Chancellor and Finance Minister.

It was not to be. But Dr. Stoltenberg does not seem to have suffered too badly from being identified with the losing candidate.

It was Dr. Stoltenberg who must take the main credit for helping to make the problem of state indebtedness—a major election issue, Dr. Stoltenberg, who has carved out a role as one of the leading financial and economic brains in the CDU.

But what militates against Dr. Stoltenberg making an early bid for the leadership is the dangerously small majority of the CDU in Schleswig-Holstein. Dr. Stoltenberg will thus have to concentrate on guarding his flank before the State Parliament holds its next elections in 1983. The SPD in particular has made it clear that it will make an all-out effort to win Schleswig-Holstein, thus, giving the Bonn Government a majority in the Upper House.

Dr. Stoltenberg is a quiet, contemplative man with broad interests. His doctorate was on the history of the Weimar Republic and his main passion is collecting far Eastern art. This may just have given him the distance from politics to see when jobs should be turned down or accepted. In 1962 he turned down the Defence Ministry after Herr Strauss stepped down.

In 1968 he declined the Interior Ministry after Herr Strauss stepped down. In 1968 he declined the Interior Ministry offered to him by Chancellor Kurt Kiesinger. In both cases, he appeared to sense that the jobs, though important, would have created more problems than they were worth—and he was right.

The dilemma is now—will Dr. Stoltenberg be able to show the same restraint in the race for the leadership of the CDU. The next man to become the Christian Democrat Chancellor candidate could well become the next leader of West Germany—and that is a prize that Dr. Stoltenberg may find difficult to resist.

Dr. Stoltenberg is waiting for a vote

discovered the theme many years ago. The combination of Dr. Stoltenberg and Herr Strauss, himself a former Finance Minister, managed to project the issue in a campaign otherwise distinguished mainly by its vacuity.

Dr. Stoltenberg gained two other advantages from his alignment with Herr Strauss. In the first place, he became widely known in the southern states of Baden-Wuerttemberg and Bavaria where Strauss-Stoltenberg posters were to be seen on most street corners. Secondly, he asserted himself as a television politician par excellence.

Friends say that Dr. Stoltenberg has the rather irritating conversational mannerism of talking to people as if they were in a public meeting. Each conversational gambit ends with an interesting pause as if Dr. Stoltenberg is waiting for a vote

of thanks. But this coolness in personal ties—which may have slightly hurt his standing in the party so far turns into a positive asset on television where he emerges as strong, reasonable, factual and mature.

Both assets—the exposure in the south of Germany and the effective national television coverage—will stand him in good stead should he make an immediate bid to be the Chancellor candidate of the opposition. He could also probably count on the support of Herr Strauss and the Bavarian Christian Social Union, the CDU's sister party.

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Dr. Stoltenberg is waiting for a vote



Dr. Vogel

Dr. Hans-Jochen Vogel

"HANS-JOCHEN WHO?" Even foreigners with more than a passing interest in West German politics pose the question when the name of the Federal Justice Minister is mentioned. Dr. Hans-Jochen Vogel is neither renowned beyond Germany nor does he receive anything like the domestic media coverage some of his cabinet colleagues. Yet, if Herr Helmut Schmidt were to step down while his Social Democrat Party (SPD) were still in power, then Dr. Vogel stands a good chance of succeeding him as Chancellor.

On the face of it this seems astonishing. It has long been widely assumed that either the present Finance Minister, Herr Hans-Martin Lohr, or the Defence Minister, Herr Hans Apel, was the heir apparent to Herr Schmidt. It would certainly be foolish to rule out either. But the rise in authority and esteem of Dr. Vogel (Schmidt: "the best Justice Minister this country ever had") is unquestionable.

Setbacks

Thus things seem to be going Dr. Vogel's way, but it was not always so. He has suffered serious setbacks to his career, which caused some commentators (and even colleagues) to write him off as a potentially influential political force. Born into a Catholic family in the university town of Göttingen on February 3, 1928, Vogel went straight to the war front from school, was twice wounded, and then imprisoned. When peace came, he decided for the SPD as the party he felt was most likely to keep the country out of external conflict and to give it domestic stability through social reform.

At first, success seemed to come almost too easily to Hans-Jochen. He was top of his law exams out of more than 300 candidates, gained a brilliant doctorate, and at the age of 34 the youngest Lord Mayor of a Bavarian capital city of Munich has ever had. He gained the office in 1960 with 64 per cent of the vote, increased his support to 78 per cent only six years later, and pushed through a huge building and planning programme for the Munich Olympics of 1972.

Then success seemed to desert him. By the time he departed to become Federal Building Minister in Bonn in 1972, the Munich SPD had swung strongly to the left leaving Dr. Vogel, best described as a reformer, in the centre, largely isolated on his home ground. In the Federal capital he seemed lost in the national political struggle, always working hard, aiming in the right direction but constantly disappointed.

Vogel's change to the Justice Ministry in Herr Schmidt's first cabinet in 1974 changed all that. He has constantly handled tense and delicate situations with ability and courage—for example, the pressures on his ministry during the height of the terrorist threat. Not that the evidence of these qualities was to be wondered at after his experience as a judge in Bavaria. He is quoted as ruefully recalling it was not hard to sentence ordinary criminals, but to fire a Bavarian butcher who put too much water in his sausages demanded courage of an unusual high order. A sense of humour is not the first quality one associates with Dr. Vogel, but it is there all the same.

Jonathan Carr



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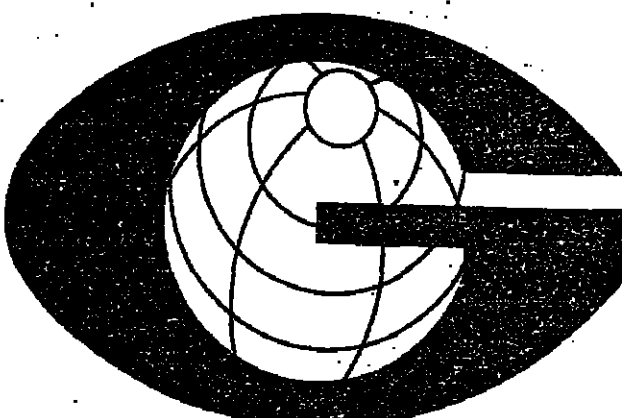
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مكتبة النهر

WEST GERMANY XVII

Edzard Reuter

LEADERS OF West German industry are not used to being accused of hypocrisy, especially by one of their own number. It was hardly surprising therefore that Edzard Reuter, financial chief of Daimler-Benz one of the bluest of blue chip companies in the Federal Republic, should create something of a stir in West German boardrooms earlier this year when he urged industrialists to show a little more honesty in publicly owning up to the facts of modern industrial life, to the imperfections of the social market economy and the role played today by the state.

Reuter has been quick to point out since that he was speaking in a personal capacity, wishing to detach Daimler-Benz from any resulting disavowal. He admits too with an engaging frankness that he was astonished at the effect his outspoken address, given to an international management symposium at St Gallen in Switzerland, had had on a much wider public in Germany.

But he was clearly driven to speak his mind because of his growing concern that the younger generation is being alienated by the "hypocrisy" of modern leaders—from politics, the trades unions and from industry—speaking in one way but acting in quite another.

He is not a German industrialist who has attracted controversy in the past and he has not courted it now, but he appears to have hit on a sensitive nerve in German industrial life, and he is anxious that society's leaders should not lose further credibility with the young.

Reuter, 52 years old, belongs to a generation of German managers that has come to the fore since the completion of the major reconstruction of the German economy and he feels perhaps freer than most of his predecessors to try to analyse aloud the role a modern industrial group should be playing in the economy and in society.

"My belief is," he told his audience at St Gallen, "that the only people that are qualified to be employers today are those that have an intrinsic understanding that our responsibility for the environment is not a shackle imposed by the politicians, that our responsibility for jobs is not a burden forced on us by the trade unions, but that both must be accepted independently as joint responsibilities, as a duty and as a challenge."

He is unlikely to choose to want to expound on this thesis from any platform other than

that of a leading industrialist, for he appears content with his role on the Board of Daimler-Benz.

He joined the Stuttgart-based car and commercial vehicle maker in 1964 in the financial department after working for the Bertelsmann publishing group, where he had been helping to prepare a publishing consortium's application for a licence to run a commercial

Mercedes" and that it will be a "smaller" car, not a "small" one.

The planning for a smaller addition to the Mercedes range has been going for probably at least two decades. One version was developed in the early 1960s, but never saw the light of day, and Reuter admits that the first oil crisis in 1973-74 certainly helped to firm up plans for the model, which had again started to crystallise in 1972-73.

The thinking behind the smaller car is very much the product of the Zahn era at Daimler-Benz. Professor Joseph Zahn had become an important symbol of Daimler-Benz in his 14 years as chief executive as the Mercedes star that adorns the bonnet of all the group's products.

Zahn finally retired from the executive board at the end of last year and for many months Reuter was among the men tipped to take over as chairman. In the event the top job went to Dr. Gerhard Prinz, a fellow board member, and Reuter moved across to take over Zahn's portfolio in finance.

In his present function he is overseeing the development of Daimler-Benz's annual report into a more informative document—a world consolidation was provided for the first time in 1978—but he is aware that the lack of common guidelines still bedevils the task of inter-company comparison.

Reuter is clearly no revolutionary, but he is interested in reform and more open, honest discussion of the condition and role of modern industry. He is himself something of a rarity in German industry, a member of the Social Democrat Party holding office on the board of one of the country's top companies, and his views today inevitably owe much to his early family history.

He is the son of Professor Ernst Reuter, the famous first Mayor of West Berlin, who held office in the first early dramatic years after the Second World War, when Berlin was the focus of world attention and its life hung on the slender thread of the airlift of goods from the West during the Soviet blockade.

During the Nazi period, Ernst Reuter was persecuted for his Social Democrat views and spent some time in a concentration camp.

Edzard Reuter went into exile as a boy with his family first to London and then for several years to Turkey, returning first to Berlin after the war to take up the study of mathematics, physics and law.

Kevin Done



Herr Reuter

television station, an institution, which never actually materialised under German law.

He was appointed to the Daimler-Benz board as a junior member in 1973 and as a full member in 1976 with responsibility for strategic planning and organisation. From the beginning of 1977 he also took over the technical planning function and was thus responsible within the collegiate board for the Daimler-Benz group's entire corporate strategy planning worldwide.

He stresses the fact that both in theory and in practice decision-making at the Daimler-Benz board is a matter of joint and shared responsibility, but it is nonetheless true that much of the group's current ambitious five-year, DM10bn capital expenditure programme has stemmed from his department.

Undoubtedly, the centre-piece of the programme is the development of Daimler-Benz new "smaller" car, which will take up at least DM2.5bn of the total investment and rather more when shared parts are taken into consideration.

The car has been the subject of wide speculation since the project was announced in 1978, but Daimler-Benz has coyly admitted to little except to point out that it will be a "true

Countess Dönhoff

IN JANUARY, 1945, Marion Countess Dönhoff, was forced to abandon her family estates in East Prussia, retreating westward on horseback through the snow before an onslaught of Russian tanks.

Today she is Publisher of *Die Zeit*, the Hamburg-based weekly newspaper which she helped to found in 1946 and of which she was for years Political Editor, then Chief Editor. In the intervening span of more than three decades her own writings and the general editorial policy of *Die Zeit* have had a major (although obviously unquantifiable) influence on the development of Liberal attitudes in the Federal Republic.

What is meant by "Liberal" in this context? It is not simply support for the policies of the Free Democrats (FDP), the West German Liberal Party which is the junior partner in Chancellor Helmut Schmidt's Coalition Government in Bonn. True, the relative success of the FDP in this month's general election showed some voter disenchantment with the polarisation of the preceding campaign—and that is a result about which *Die Zeit* is certainly not unhappy.

But there is more to it than that. Countess Dönhoff summed it up nicely in a speech last year in the Netherlands, when she accepted the Erasmus prize awarded jointly for outstanding journalism to *Die Zeit* and to the *Neuf Zürcher Zeitung*. She stressed that Liberals needed strong nerves—the ability to put up with claims from the Left that they were "reactionary" and from the Right that they were veering towards Communism. "In the end the legitimate place for the Liberals is between all stools," she declared, adding on behalf of herself as well as *Die Zeit*, "we feel very happy to be there."

Of course, *Die Zeit* is not the only German publication to follow this kind of philosophy, but it has probably been the most consistently successful in doing so. In the student revolt of 1968, it initially supported the upsurge of the young (to the annoyance of many Conservatives) as a step towards necessary reforms. But it firmly condemned the gradual rise of violence associated with the movement (to the anger of the young extremists who felt this was the only way to overturn the old system). It deplored the terrorist attacks of 1977 on leading public figures, but in a series of articles it warned against over-reaction by the state.

This sense of balance emerges in particular in her articles and comments on relations with the East, which, after



Countess Dönhoff

all, was her homeland. She was born on December 2, 1909, at Friedenstein near Königsberg (the birthplace of Kant, now the Soviet city of Kaliningrad), gained a Doctorate of Law at Basle in 1935, travelled widely beyond Europe, but returned home in 1939 to manage the family estates.

Clear-sighted

It would not have been surprising if the outcome of Countess Dönhoff's exile had been bitterness and strong opposition to any accommodation with the Communist states. But she is the author — with two of her *Die Zeit* colleagues — of one of the least prejudiced, most clear-sighted accounts of a visit to a Communist East Germany. The book "Journey to a Far Country — Economy and Politics in the DDR" (Deutsche Demokratische Republik), appeared in 1964, three years after the building of the Berlin Wall and well before the Bonn Government launched its policy of establishing normal relations with the East under Chancellor Willy Brandt. It was therefore no surprise when Countess Dönhoff supported that policy, although more aware than its most enthusiastic advocates that the going would be slow, tough, and beset with setbacks.

Countess Dönhoff holds many awards, among them the Peace Prize of the German book publishers, the Arthur D. Morse Prize of the U.S. for services to publishing, and an Honorary Doctorate at Smith College, Massachusetts. None of this seems to alter her: she remains personally charming, quiet spoken and very determined. She continues to travel widely, and fortunately, to write often.

Jonathan Carr



Dr. Iber-Schade

Dr. Anne-Rose Iber-Schade

THE NEW head of West Germany's Vereinigung von Unternehmerinnen (the association of female entrepreneurs), Dr. Anne-Rose Iber-Schade, has one main goal: to promote the image of top women in industry. She says that, while it is no longer extraordinary for a woman to manage a company, businesswomen still have to dispel many lingering misconceptions and prejudices here in the Federal Republic.

Dr. Iber-Schade, who has a degree in economics, entered her family's automobile spare parts and component business, Wilhelm Schade AG, in Plettenburg, Northrhine-Westphalia, and took it over five years later on the death of her father. Her husband became the company's technical director. Now, at the age of 57 with three grown children, she has withdrawn a little from the management of the flourishing company she and her husband have been running for 25 years to concentrate on her contribution to the association's efforts.

Wilhelm Schade AG, with its work force of 1,500, is a medium-sized company with an annual turnover of DM 120m. Despite its heavy dependence on the motor industry it weathered the downturn in the sector during the 1974 energy crisis virtually unscathed, thanks largely to the decision to spread the risk by supplying all West German and many foreign car producers, not only a few major ones. This policy has been accompanied by successful attempts at product innovation and diversification.

Like Dr. Iber-Schade, the majority of the 1,400 members of the association manage medium-sized businesses. What special problems do they face? First of all, of course, they have the same difficulties afflicting most entrepreneurs these days. They have to cope with increasing state intervention in industry and the resulting floods of paperwork. And, like their male colleagues, they are affected both by stringent company taxation, which threatens the substance of the enterprise, and by the growing social security burdens which boost personnel costs.

On top of this, however, they have to fight against society's mistaken view that they are either single and mannish, or, on the other hand, have made their careers only through a prudent marriage or by an inheritance.

Encouragement

By no means a fiery feminist, Dr. Iber-Schade feels, nonetheless, that in the continuing absence of equal opportunities for women it will certainly take some time before female entrepreneurs are wholly accepted. Although she believes that female company bosses—like their male counterparts—need only leadership qualities, the willingness to work extremely hard and staying power in order to succeed, she also thinks that even well qualified women executives need special encouragement and advice to master the ever-tougher competition in an increasingly difficult economic climate. Thus, she is convinced of the continuing need for the association, which was founded in 1954 to provide a forum for mainly untrained women who had had to take over family businesses after their husbands were killed in the war.

Dr. Iber-Schade also urges her members to come forward and seek office in government bodies and industrial federations. This, she says, is the best way of demonstrating the female entrepreneur's readiness to shoulder responsibility beyond her immediate concerns, and of doing away with widespread misapprehension about women in key positions.

Dr. Iber-Schade has set the best example herself. She is a member of the board of the Economic Council of the opposition Christian Democrat Party, an honorary judge at the Federal Social Court, which rules on social security disputes and a member of various committees of the Federation of German Employers. But she takes special pride in having recently been appointed—as the only woman among five men—to the Government's advisory body to the Government which acts as a watchdog of the social market economy.

Elgin Schroeder

AMK Berlin

Fairs and Exhibitions Division

Fairs and Exhibitions

1981

23.01.-01.02.	International Green Week Berlin 1981
28.02.-06.03.	International Tourism-Exchange ITB Berlin 1981
14.03.-22.03.	Leisure Industries Exhibition Berlin Boats, Sports and Caravanning
30.03.-05.04.	WASSER Berlin '81 Congress "Wasser", National/International Technical Conferences, Special Show, in conjunction with IFW '81 International Fair Water Supply
30.03.-04.04.	
05.04.-08.04.	BERLINER INTERCHIC - 122nd Fashion Fair/Main Collection
09.06.-13.06.	30th German Congress for Medical Advanced Training 14th German Congress for Dental Advanced Training International Pharmaceutical and Medico-Technical Exhibition
29.06.-03.07.	SURTEC Berlin '81 - International Congress and Exhibition on Surface Technology
04.09.-13.09.	International Radio and TV Exhibition Berlin
30.09.-04.10.	19th Overseas Import Fair "Partners for Progress" Berlin 1981
07.10.-10.10.	büro-data Berlin '81 Exhibition of the Office Industry
11.10.-14.10.	BERLINER INTERCHIC - 124th Fashion Fair/Main Collection
27.10.-31.10.	EL-FA '81 - Specialist Electrical Engineering Exhibition of the Berlin Trade Representatives CDH
30.10.-04.11.	BAUTECH Berlin '81 Building Fair and Congress on Modernisation, Construction, City-Planning
18.11.-22.11.	Hobbies, Pets and Plants Berlin 1981
28.11.-06.12.	ANTIQUA '81 Berlin

Extract from the programme of events

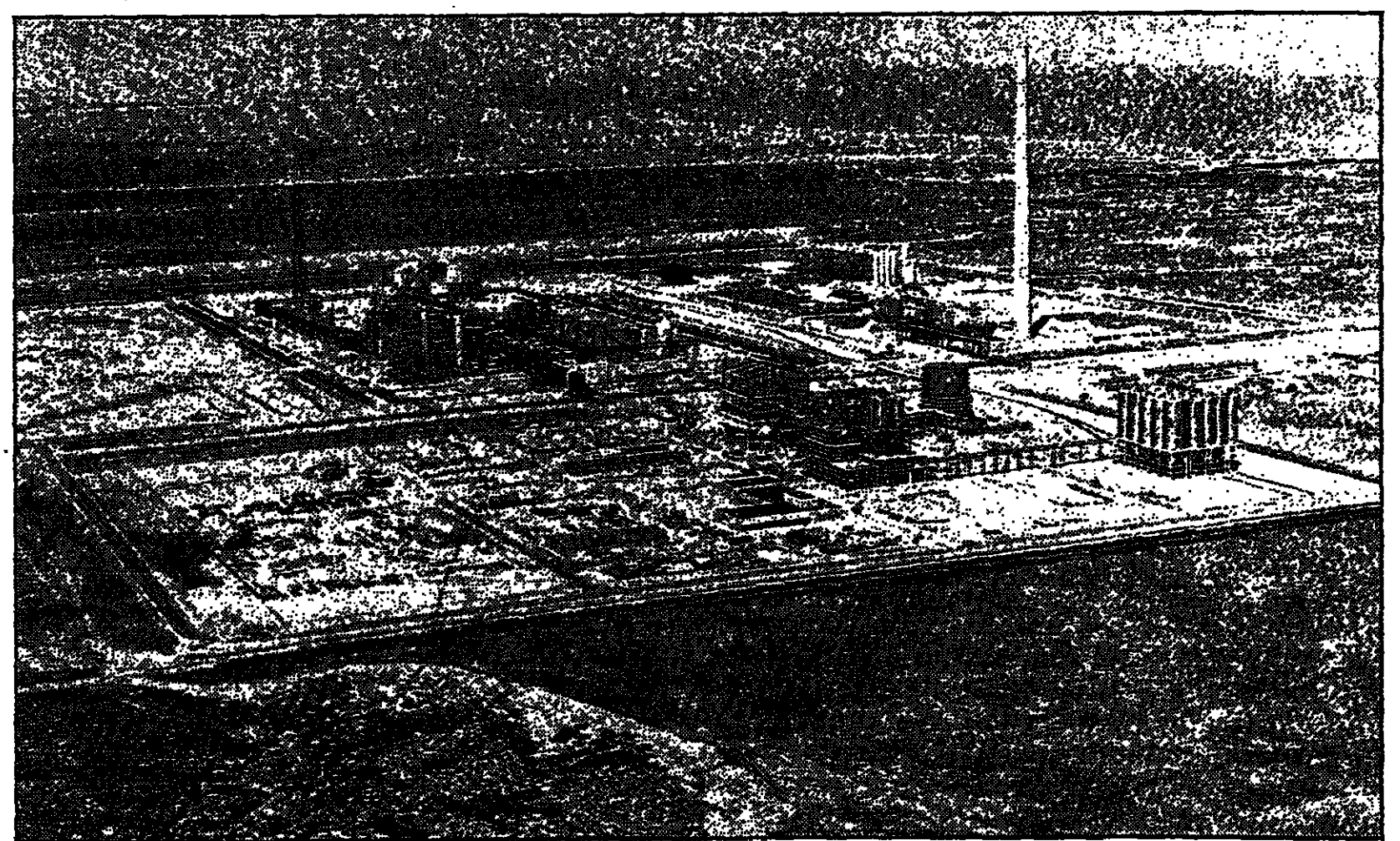
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WEST GERMANY XVIII

Munich: home of Meistersinger

THE ARTS

JONATHAN CARR

A GRAND musical tradition is alive and well and living in Munich. I am not referring to Herr Karl Richter and his Bach Choir and Orchestra, excellent though they are, nor am I suggesting that the Munich Philharmonic is being restored to its former pinnacle under Mr. Sergiu Celibidache (whose fans claim him to be one of the very last of the great conductors). No, this tradition on the face of it is a more impersonal one — for it involves a building and a composition.

The building is the Nationaltheater, home of the Bavarian State Opera, and the work is Richard Wagner's *Die Meistersinger von Nürnberg*.

It is quite possible that you will hear the orchestral part more accurately played at the Salzburg Festival, or better interpreted (by Mr. Reginald Goodall) in London. It is even conceivable that the overall standard might be equalled in a performance at Bayreuth (although the less said about some of the recent efforts there the better). But in the end *Meistersinger* belongs to Munich as *Boris Godunov* belongs to the Bolshoi. Why is this?

For one thing *Meistersinger* had its first performance there in June, 1868, under Hans von Bülow (with whose wife, it will be recalled, Wagner was ungrateful enough to run off). After the Second World War, it was the first work to begin a

new series of Munich music festivals — in the Prinzregententheater, since the Nationaltheater itself still lay in ruins. And when the Nationaltheater was finally rebuilt (much in the previous style), it was *Meistersinger* which ushered in the new era, on November 23, 1963.

So much for the statistics, but they don't prove very much. After all *Tristan und Isolde* also had its premiere in Munich and is not often absent from the programme there, yet its strenuous gloom seems better suited to more northern climes. That is a highly subjective impression, and many would not agree, but I will remember one local university professor's conclusion to a dismal discourse on the philosophy of Schopenhauer and its links to *Tristan*. He referred to a performance in Munich under the late, lamented, Hans Knappertsbusch.

"Was it impressive?" I asked. "It was magnificent," he said, his eyes glistening as he gave the highest possible accolade: "it was hardly tolerable."

There is a lot about the Nationaltheater to make a performance of *Meistersinger* tolerable, even for those for whom sitting through a Wagner opera is a penance to be endured only for a loved one or (perhaps) for an important business contact. It is true that the seats seem to become a little hard as one approaches the end of the second hour of the last act. But the riot of colour in the final scenes on the meadow before Nuremberg — a spectacle for which the Nationaltheater pulls out every one of the many stops at its disposal — diverts the eye what-



The theatre in Wiesbaden—one of the many German towns to have its own theatre and opera house

ever the other discomforts may be.

So does the sight of the evening gown in the main lobby (the Nationaltheater is an unrepentantly "dressed" place), the marble staircases, the red velvet, the gold and sky blue decorations and the crystal chandeliers. If that is not recompense enough, then there are inexhaustible supplies of hot berries and ice cream, salmon and champagne.

Is it really only a few decades since the theatre and the whole city centre was a bombed-out shambles, since there were queues for the soup-kitchens, since Cardinal Faulhaber performed the first post-war Christmas Mass in the shell of Munich's main church, under an open sky?

Time and again there are passages in *Meistersinger* which bring back that era — like the great Wahn monologue of Hans Sachs. "Why do people torment and flay one another in useless,

foolish anger... it is the old madness. If it halts somewhere it is only to gain strength in sleep. Suddenly it awakens, then see who can master it." The Munich-born Richard Strauss produced his own post-war epitaph on the Opera House where he had so often conducted and which now lay in ruins: *The Metamorphosen* for strings based on Beethoven's Funeral March. Strauss seems to be striving for effect in some works, using a brilliant technique to obscure the fact that he has little to say. *Metamorphosen* is decidedly not one of those occasions.

Still *Meistersinger* is the last work to leave you with mournful feelings. Indeed, part of the delight is that it arouses them, only to blow them away again in a finale whose optimism does not seem to be too cheaply purchased.

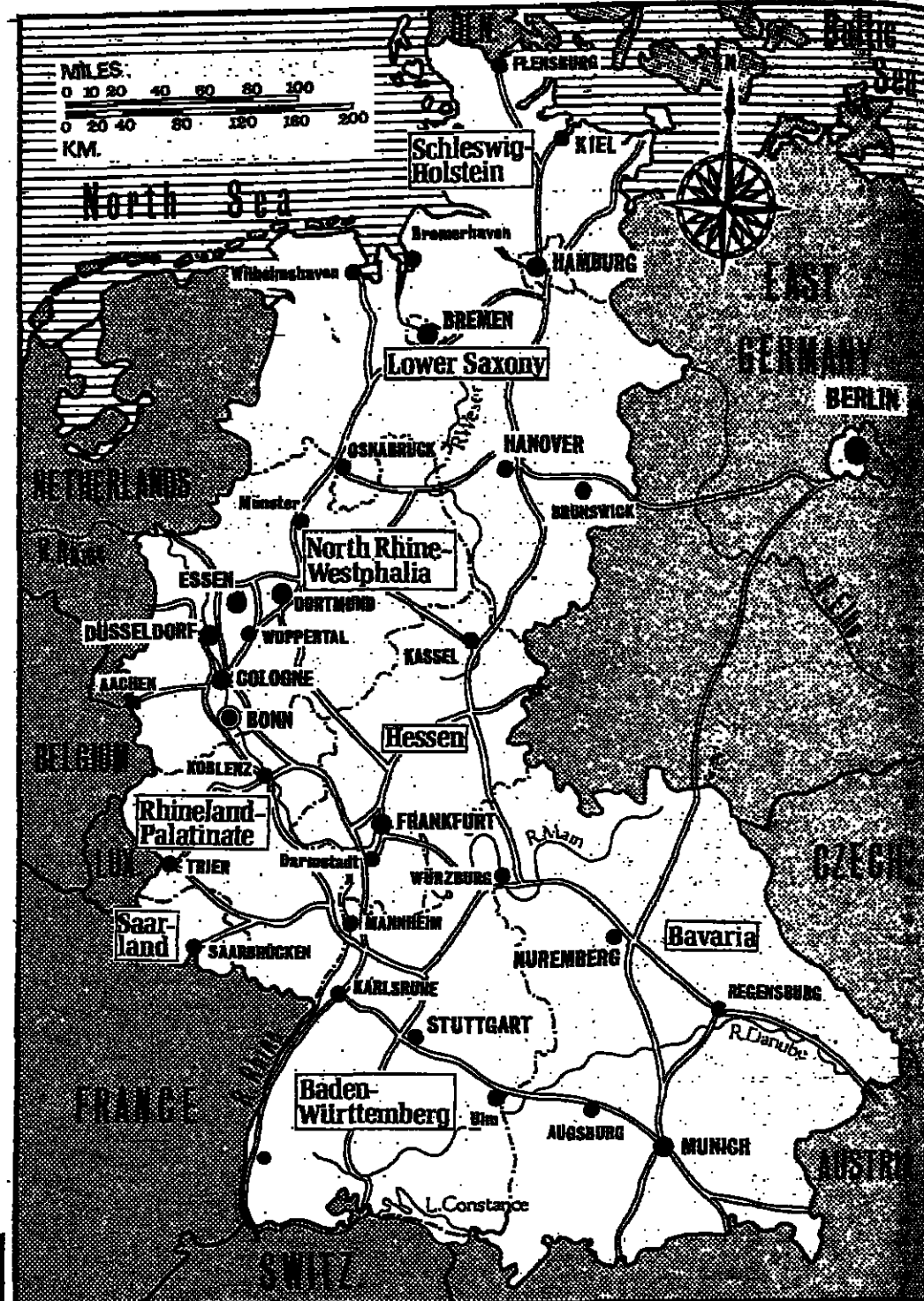
Thomas Mann (another one-time Munich citizen) was not correct about everything — but

in the case of *Meistersinger* he was right on target. "It is," he said, "a splendid work, a festival opera if ever there was one, a poem in which wisdom and boldness, the worthy and the revolutionary, tradition and the future, are wedded in a manner which is at once grandly joyous and at a deeper level awakens enthusiasm for life and art."

It would be unwise to try to cap that, but it is worth giving a last word of warning. On no account allow yourself to be drawn into a discussion between enthusiasts (some would say lunatics) on the best performers of *Meistersinger* over the years. At least, do not do so if alcohol is readily to hand.

I will recall an argument developing between several, otherwise civilised, people in a vaulted wine cellar a stone's throw from the Nationaltheater. It was had enough when one, younger, member of the party suggested that Herr Rene Kollo, a tenor much in demand today as Walther Von Stolzing, was at least as good as Herr Heinrich Knote, a tenor in Munich around the turn of the century, of whom some recordings still exist. The contempt of the older, more experienced *Meistersinger* hands knew no bounds. But when the same person sought to argue that any Hans Sachs today was as good as the famed Hans Hermann Nissen, who sang the role under Toscanini, there was pandemonium.

Only one interjection restored the peace: that the Nationaltheater was still the best place to attend a performance of *Meistersinger*, and always will be. Glasses clinked and an unseemly incident had been narrowly avoided.



Plans for privately run TV stir strong feelings

BROADCASTING

ELGIN SCHROEDER

"THIS COUNTRY will be different at the end of it," says Herr Albrecht Mueller, Head of the planning staff at Bonn's Federal Chancellery, what he means is, it will be worse. He is referring to the changes which will be wrought by the arrival in West Germany of the so-called "new media": cable and satellite television.

Their introduction is, in any case, thought to be inevitable by experts of every political persuasion. Nonetheless, to bring up the issue is at once to spark off heated discussion not only about the extension of existing communications but also about the current monopoly of the publicly owned radio and television system.

Many Germans, including Chancellor Helmut Schmidt, think this has proved its worth over the past 30 years and do not want to see it disappear. Proponents of the "proven system" who are upmost the Social Democrat Party (SPD) which is the senior partner in the Bonn Coalition, argue that it has enough to offer for all tastes and warn that more television leads to apathy and the isolation of the viewer. The supporters of the new media, primarily the opposition Christian Democrat Party (CDU) speak of increased chances for a "healthy diversity of opinion" which is, as they say, the basis of a good working democracy.

Their demand for privately run, commercial stations is halfheartedly supported by the Free Democrat Party (FDP), which is the junior partner in the Bonn Government. It steers a middle-of-the-road course in wanting introduction of commercial channels, but established as public bodies—both to promote a wider spectrum of opinion and to open new markets for the electronics industry. Thus the dispute has been carried into the ranks of the ruling coalition.

Safeguards

The situation is further aggravated by the print media's concern over the advent of new competitors on the already tight domestic advertising market. Take two major market trials of viewpoint and telecast—techniques for providing information by linking specially modified television sets with computerised data bases. These trials, launched in Düsseldorf and Berlin this summer, could only get off the ground with difficulty. At first the newspaper publishers resisted the broadcasting organisations' insistence of exercising monopoly over the transmission of the new media. Now the controversy has been put on ice for the time being so that the publishers can at least participate in the trials.

Today's West German broadcasting organisations were established after the war, taking as a model the kind of independence the BBC enjoys. To make sure that broadcasting would never again be taken over by the state—as it was during the Nazi era—the Länder, the German provincial states, were solely responsible for the networks. Nine regional stations were set up, run by public sector bodies made up of representatives of all "socially relevant" groups such as the political parties, the churches and trade unions.

These nine stations subsequently formed ARD, West Germany's first television channel. During the day it broadcasts separate regional programmes, but in the evening the stations contribute to a joint effort. In 1963 ZDF, the second channel, was founded—also in the form of a public corporation—representing all the Länder. This channel televises one single programme for the whole of Germany. A third channel, provided by ARD, offers mainly educational programmes regionally.

Political bias

But from the first the political parties vied for more influence in the councils supervising and managing the networks. The attraction was the opinion-forming power the spoken word. Soon the CDU, then in power at Federal level in Bonn, began to complain that the SPD was exercising too great an influence on broadcasting, and that radio, as well as television, was leaning too far to the political Left. Ever since one of the country's leading public opinion polls ascribed the SPD/FDP victory at the 1976 General Elections to an alleged Left-wing bias of the networks, the fight of the parties for supremacy over broadcasting has been on. It came to a head over the NDR, North German Radio (Norddeutscher Rundfunk), the country's second largest radio and television station, and it is now threatening the whole public broadcasting system.

For a long time the Christian Democrat states of Lower Saxony and Schleswig-Holstein had complained about unhelpful political bias from NDR, which they were running jointly with SPD-ruled Hamburg. Finally, Schleswig-Holstein gave notice that it wanted to leave NDR. Shortly afterwards it announced that, together with Lower Saxony it was planning to set up its own radio system, to include commercial broadcasts. Although this development was effectively barred earlier this year by a court ruling, the present broadcasting system seems to have won a reprieve only. The subsequent compromise of the former opponents to continue NDR as a three-state system envisages the abolition of NDR's radio monopoly in North Germany at the end of 1982. Additional private channels will then be allowed. The accord also foresees introduction of commercial radio spots by NDR next year to supplement the station's inadequate licence income, a path which other provincial networks have already taken.

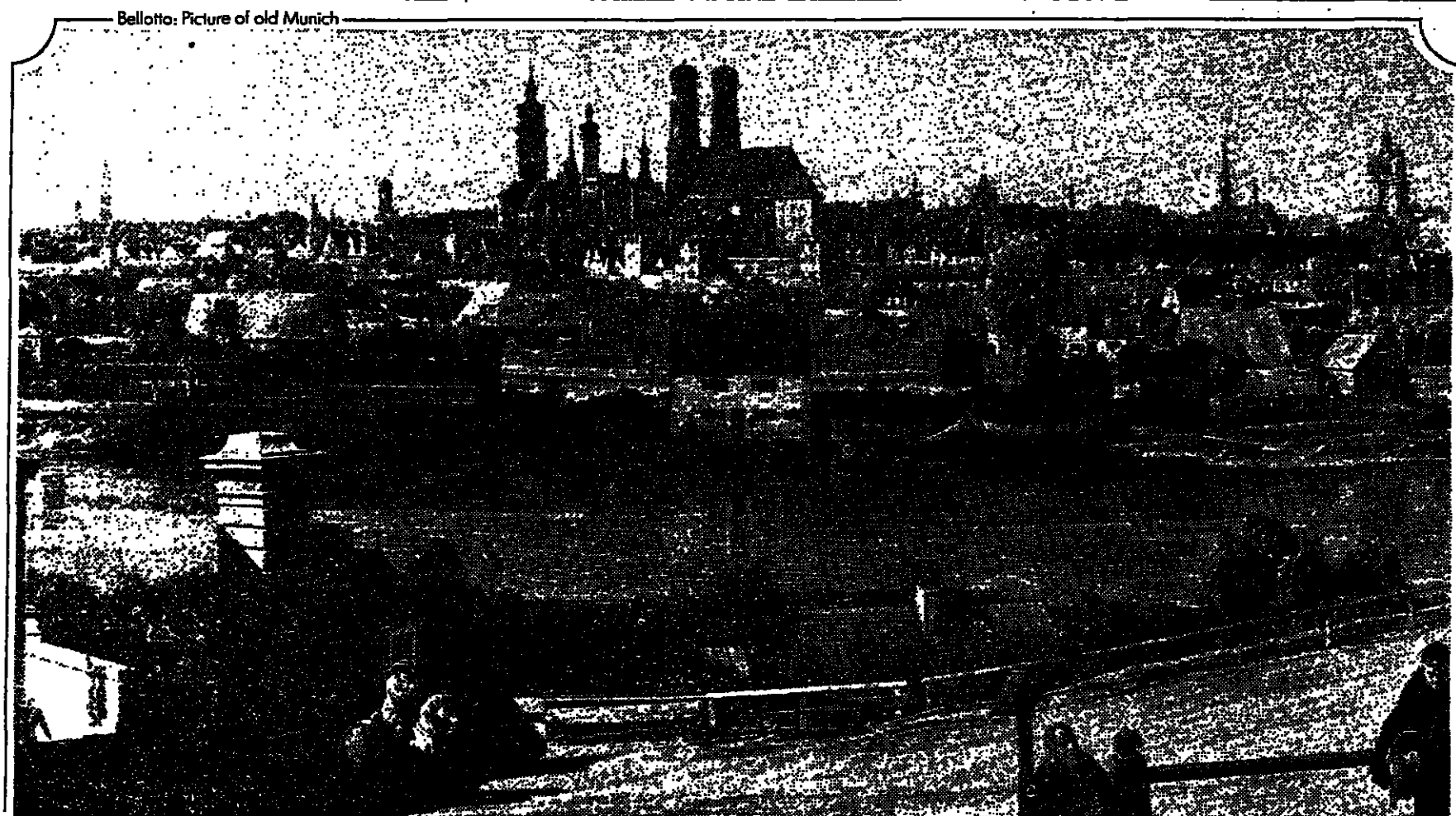
While the feuding political parties expressed their satisfaction with the "fair compromise"—the SPD because the

NDR remains intact as a public corporation and the CDU because it will be able to realise its media plans after all (albeit with some delay)—strong protests came from the North German newspaper publishers. They attacked the agreements on grounds that the introduction of radio spots—especially in regional programmes—to be followed by commercial television later on would send their advertising revenue plummeting. This, they said, would revive the trend towards concentration in the free-enterprise writer press which had seemed to be broken after the early 1970s.

So far, the print media do not complain about lack of advertising. Newspapers and magazines together received as much as DM 7bn of the total DM 11bn, Germany's expenditure on advertising in 1979. Besides, concentration of the Press may no longer be so great a problem as statistics seem to indicate. Admittedly, of the 1,200 daily newspapers published in West Germany, nearly 1,000 are no longer what are called here "fully independent" papers, edited by their own separate staffs, but while the number of these independent papers dwindled from 235 in 1954 to 125 in 1976, the total actually increased again by just over 100 in the next three years to 199. Only about half of the papers that receive a substantial part of their editorial content from other newspapers have a daily circulation of more than 10,000. Of the 35 papers in the country with circulations of 100,000 or more, only one does not have a full editorial staff to prepare its contents. Furthermore, in the three-year period till 1979 only one paper with a small circulation of 4,500 vanished. All this is a clear indication of how much the situation on the German newspaper market has stabilised down compared with, for instance, the time between 1904 and 1907 when 38 newspapers were forced out of publication.

Largest circulation

The country's five largest publishing enterprises have roughly 45 per cent of the daily newspaper circulation market. The biggest of them, Axel Springer Verlag, has a 23 per cent share of the total daily circulation with five papers. Two of these are nationally distributed: the conservative and respected *Die Welt* and *Welt am Sonntag*, which with *Frankfurter Allgemeine Zeitung* is the largest circulation newspaper in Continental Europe. To sum up, while the political ideological reasons for the introduction of the new media, the privately-owned writer Press has solid financial grounds for its reservations. As Dr Alfred Neuen du Mont, President of the Federation of German Newspaper Publishers says: "We don't want to block cable and satellite television, nor (teletext and data, but we do insist on a fair share in the use of the new technology."



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Michael Donne reports that a marathon legal battle over air routes may be in prospect

Europe's airlines face a Laker time-bomb

IF ANYONE really wonders why the majority of the world's airlines, especially in Western Europe, have been resisting the mounting consumer pressures for cheaper air fares, the stark facts outlined in the latest analysis of the airline industry by Mr. Kenneth Hammarhjöld, director-general of the International Air Transport Association, provide the answer.

He will tell the IATA annual meeting in Montreal today that last year, the 103 member airlines, including most of the biggest in the world (outside the U.S.), experienced a year of "profitless growth".

They carried a record number of scheduled passengers, at \$80m, 7.5 per cent more than in the previous year.

But they made virtually no money. Their operating revenues grew by 18 per cent to \$50.6bn (£20.73bn), but their operating costs rose by 23 per cent to \$50.45bn (£20.67bn).

The financial results for 1980 will be even worse. By August, the scheduled services of IATA members collectively were showing losses.

The worst problem confronting the airline is fuel, which went up last year by an average of 73 cents a U.S. gallon. Fuel now accounts for 31 per cent of all airlines' operating costs, against only 12 per cent in 1973.

The second problem is the recession, which is now biting deeply into airline revenues. General inflation is also taking its toll. Although there may be some exceptions—airline operating costs in general will be hard hit by continued inflationary pressures in the year ahead, says Mr. Hammarhjöld.

Contributing to these costs are increases in user-charges around the world—the price the airlines pay for using airports, navigation and other facilities. The UK here comes in for a bitter attack because, in the current year alone, increases in these charges in the UK will

add another £80m to airlines' bills.

Mr. Hammarhjöld criticises the British attitude for on the one hand raising user charges, while on the other pushing for cheaper air fares, especially in Europe.

The point that Mr. Hammarhjöld makes, most strongly, however, is the need for Governments to show a much greater awareness of the long-term value of air transport to the world's economic well-being.

Abrasive policies designed to attack the industry such as the U.S. Civil Aeronautics Board's long-standing threat to remove from members of the IATA their immunity from U.S. anti-trust laws, are only one facet of this.

However, the U.S. and British governments are not the only bodies threatening the future structure which IATA defends.

Mr. Hammarhjöld, indeed, wants official regulations streamlined to permit faster increases in fares in response to rising fuel costs. Mr. John Nott, the UK Secretary of State for Trade, who is singled out for criticism by Mr. Hammarhjöld for urging lower fares, may now face a legal battle with the British and other airlines.

Mr. Nott rejected this appeal, and a similar one from another UK independent, British Caledonian, on the ground that hostility from foreign governments would make it impossible to secure such routes. Sir Freddie Laker, indeed, argues that the power under which these governments can

restrict the granting of routes is illegal under the Treaty of Rome, which prohibits, under Article 85 to 90, any restrictions on competition.

He now threatens to ask the courts to declare that this treaty obligation overrides the right under which the European "system" of regulation, route-sharing and revenue pooling has been developed since the war. This is the right of any country to sovereignty over its own airspace, which implies the right to say who shall and shall not fly in it.

Since not only Mr. Nott's own Department of Trade, but also the air transport establishments of every other member of the Community, believe Sir Freddie to be wrong, they are bound to fight him. A marathon, far-reaching legal battle may well be in prospect.

Sir Freddie has might on his side, as well. The European Commission itself believes it is time that the structure was changed, and has said it will allow airlines to introduce new, more competitive route-making policies. But the EEC's

duty free. Damage from an advanced competitor is no less real than that from a low-cost airline, it is located in a low-GNP per capita country.

For these reasons we continue to believe that our case is well founded, and far from protectionist.

Martin E. Trowbridge, Chemical Industries Association, Atlantic House, 93, Albert Embankment, SE1.

Siting plants
From Mr. H. Stephens
Sir—Mr. W. L. Luetkens in the Lombard column (October 21) supports underdeveloped countries in exporting petrochemical products derived from all feedstocks costed in at below world prices.

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Sir Freddie Laker, flying high on one of his McDonnell Douglas DC 10-30 Skytrain aircraft and (right) announcing down-to-earth fares to Miami and New York in August.

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of licence application and diplomatic negotiation.

Laker Airways, however, adopts a tougher stance. It accepts the current channels of licence application, because that is the law, and recognises that those channels must be exhausted before it turns to other means. But when the present system fails to come up with what Laker believes to be the right answer, it says simply that it is entitled to question whether the existing processes used to grant air transport route licences are quite as legal as they seem.

Laker bluntly says they are not. The airline is basing its case largely on Articles 85 to 90 of the Treaty of Rome. These broadly lay down the rules of competition governing members of the Community. A memorandum from the Commission, dated July 6, last year, relating to the development of European air services, expressly stated that "the rules of competition (Articles 85-90) form part of the general provisions of the Treaty that apply to air transport without any Council decision being necessary."

In other words, the airlines and governments of the Community are bound by those Articles, although the Memorandum further commented that "the Commission currently lacks the practicable means to ensure that the airlines regularly and effectively comply with the rules of competition," with no penalties for violating the rules.

Article 85, for example, expressly forbids activities by undertakings or associations of undertakings which may affect trade between Member States "and which have as their object or effect the prevention, restriction or distortion of competition within the Common Market." In particular, this applies to those bodies who "limit or control production, markets, technical development or investment, share markets or

sources of supply."

Article 86 goes further, saying that "any abuse by one or more undertakings of a dominant position within the Common Market, or in a substantial part of it, shall be prohibited as incompatible with the Common Market, insofar as it may affect trade between Member States." Such abuse may include "limiting production, markets or technical development to the prejudice of consumers."

It does not require much imagination to see what that clause—if upheld by the courts—would do to the current cosy bilateral air agreements on which the whole of Western European air transport has been based for the past 35 years.

But the Treaty goes further. Article 88 provides that member countries shall have the right to rule on the admissibility of agreements, decisions and concerted practices and on the abuse of a dominant position, "in accordance with the laws of their country," but with Articles 85 and 86 in mind. Article 90 provides, that, in the case of public undertakings and undertakings to which Member States grant special or exclusive rights, Member States shall neither enact nor maintain in force any measure contrary to the rules of the Treaty.

It is, of course, a legal minefield, and one in which the lawyers in all the countries concerned are likely to enjoy a field-day in determining how the wording of the Treaty should be interpreted. So complex is it, in fact, that so far, nobody except Sir Freddie has tried to test it in the courts.

Mr. John Nott, last week, in his statement, said that "our own legal opinion is that there is no provision of Community law which overrides the regulatory systems of member Governments. But if Sir Freddie wants to test his interpretation of the Treaty of Rome in the European Court, he is free to do so."

Organisation for Economic Co-operation and Development meets in Paris to discuss Turkish aid package.

The Queen and the Duke of Edinburgh begin state visit to Morocco (to October 30).

International Horse Show, Washington.

PARLIAMENTARY BUSINESS
House of Commons: Debate on the National Health Service in England.

House of Lords: Local Government Planning and Land (No. 2) Bill, report. Tenants Rights (Scotland) (Amendment), Bill, third reading.

COMPANY MEETINGS
See Financial Diary on page 6.

Today's Events

GENERAL

UK: Parliament resumes. Dr. Joseph Lums, North Atlantic Treaty Organisation secretary general, talks on NATO and the world situation to European Atlantic Alliance Group, House of Commons.

Mr. Anthony Wedgwood Benn speaks at public meeting, East Ham, Town Hall.

Mr. Michael Heseltine, Environment Secretary, speaks at Buckhurst Hill.

Mr. John Stanley, Housing Minister, visits the Construction Industry Training Board's Broomfield, Newbury, Training Centre, Northwick.

Seminar on export promotion and information services, London.

Chamber of Commerce, EC4. Sir Peter Gadsden, Lord Mayor of London, opens National Fire Safety Exhibition, Royal Exchange, EC2; attends Shipwrights Company dinner, Mansion House.

Speakers from Ingersoll Engineers and the National Engineering Laboratory address Institution of Mechanical Engineers seminar on industrial robots, London.

Trial opens of Lady Kagan on charges under Exchange Control Act, Leeds.

International Food, Wine and Kitchen Exhibition opens, Bristol (to November 1).

Overseas: Lord Carrington, Foreign Secretary, meets Mr. Frigyes Puga, Hungarian Foreign Minister, Budapest (to October 29).

SEC Council of Fiscal Affairs meets to discuss harmonisation of excise duties and increase in the personal allowance of travellers, Luxembourg.

Dr. Saburo Okita, Japan's Foreign Trade Minister, meets Mr. Wilhelm Haferkamp, EEC Commissioner for external relations, Brussels.

Electricity structure

From the Chairman, Electricity Council.

Sir—Mr. G. W. Rufford (October 20) makes a number of interesting assertions about the organisation of the electricity supply industry in England and Wales.

Perhaps because Mr. Rufford's experience has been confined to distribution matters, his comments fail to take account of the need for production and retailing functions, which is an essential part of electricity supply in other utilities throughout the world and, indeed, in Scotland and Northern Ireland.

Every serious external examination that I know of, including the reports by the Herbert Committee in 1967, the Plowden Committee in 1976, and the Price Commission in 1979, has recognised the need for overall general management of the industry, which the present organisation fails to provide.

The essential need is surely to ensure that policies, which have a genuine national significance, are able to be decided nationally and thereafter to allow the maximum devolution of executive management. This principle was spelled out by Plowden and has been fully recognised in draft proposals for the industry on a number of occasions. I take it that a similar recognition would be given by Mr. Rufford to management devolution, within the Eastern Board, of which he is deputy chairman, and that he is able to identify matters of overall policy which require to be dealt with at Board level.

It is not correct to suggest that the proposals made by any of the bodies I referred to involve "a big pyramid concept" or a "massive unitary corporation." Such an important topic deserves balanced discussion. (Sir) Francis Tombs, 30 Millbank, SW1.

The strong pound

From Mr. R. Atwood

Sir—The current strength of the pound is again causing concern. Apparently a strong pound leads to higher prices for British goods on overseas markets. Can the consumer expect to see reductions in the prices of foreign goods to reflect the strength of sterling? Frankly I doubt it. Check the price of your foreign car, has it altered or do the manufacturers fix the prices rigidly in each country irrespective of temporary fluctuations in exchange rates? R. L. At

Euro Ferries chief sells bulk of his shareholding

MR. KEITH WICKENDEN, chairman of European Ferries, has sold almost his entire shareholding of 135,000 shares.

The sale, apparently done at 161p average through the market last week, was to raise funds to meet a personal tax liability.

It was also, in part, a protest at the restrictions which now hedge directors who wish to buy or sell shares, a spokesman for Mr. Wickenden said yesterday. Because of the difficulties of dealing Mr. Wickenden would not be buying more Euro Ferries' shares, he claimed.

The spokesman said that Mr. Wickenden had arranged with the Inland Revenue to sell the shares some months ago. Since then, however, the lengthy negotiations over the purchase of Singer and Friedlander and the normal financial periods in which directors' sales are frowned on under the model code, had held up the deal.

Downturn for Clayton, Son at half year

THE EFFECTS of prevailing conditions both at home and abroad on the capital goods industry have reduced first-half 1980 taxable profits of Clayton, Son and Co. (Holdings) to £270,871, compared with £307,814 last year.

The directors of the engineering group envisage that full year profits will be considerably reduced against the £983,687 for 1979, although they say improved results have been achieved in Australia. They add that they see no prospect of a turn in the trading pattern before the year end.

The interim dividend is held at 1.3975p net—last year's total was 6p.

Turnover in the first half moved ahead at £5.41m (£5.17m). Profits included associates' share of £1,704 (£5,240) but was subject to tax of £137,822 (£174,840).

After minorities' losses of £486 (£3,783 profits) there is an attributable balance of £133,235 (£159,191).

AIRLINE IN RECEIVERSHIP

Following a request from the directors to their bankers, Mr. Anthony Houghton, a partner in Touche Ross and Co., has been appointed receiver and manager of Air Freight and Skyways Aviation. The group which is based at Lydd Airport, Kent, suspended operational flying last Friday.

BOARD MEETINGS

The following companies have notified dates of Board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether dividends are intended to be paid and the sub-divisions shown below are based mainly on last year's timetable.

TODAY
Interim—London Atlantic Investment Trust, Outch Investment Trust, Tern-Consulate, Tharsis.
Final—Pochin

FUTURE DATES

Interims:
Becham (George M.) Oct. 28
Elliot (S.) Nov. 27
Guardian Investment Trust Nov. 6
Joseph (Leopold) Nov. 12
Lake View Investment Trust Oct. 28
Lunve (Ceylon) Tea & Rubber Oct. 20
Scott and Robertson Nov. 11
Yorkville Oct. 30

Finals:
Border & Southern Skidels Tst. Oct. 28
Herman Smith Oct. 31
Singapore Para Rubber Estates Oct. 28
Wood Hall Trust Oct. 31

Spong seeking borrowing powers increase

The directors of Spong and Co. are seeking approval to increase the company's borrowing powers to an amount equal to four times the adjusted share capital and reserves.

On the basis of the last audited balance sheet this would be £2.3m, compared with the current amount of £1.1m which is twice the share capital and reserves.

As reported on October 31, the company suffered heavier first-half losses of £380,000 (£123,064) and is carrying out a reorganisation programme which includes a reduction in staff from 215 to 80.

Mr. D. W. Spong, chairman, says that because of the continuing trading losses the directors cannot be confident that by the date to which the next audited balance sheet will be made up, the adjusted capital and reserves will not have been reduced to an amount at which the borrowing limit at the present level would not be exceeded.

Wellman in £750,000 deal with Birlec

Wellman Engineering Corporation has agreed to buy Birlec's industrial heat treatment and induction melting furnace business, excluding its contract heat treatment interest in a deal worth up to £750,000.

The business will be transferred to Wellman Incandescent at Smethwick, Birmingham, from the Birlec plant at Aldridge, Walsall, and Wellman will offer employment to a number of Birlec employees.

The consideration will not exceed £750,000, of which £825,000 relates to £300,000 good-will plus certain plant, work in progress and stocks already acquired. The £825,000 has been satisfied by the issue of 1.25m ordinary shares.

Birlec has sold these shares through James Capel and Co. buy a placement with institutional investors.

The remaining payment, to be made in cash, relates to the balance of work in progress and stock to be taken later.

Stanley Miller setback

A FALL from £98,436 to £5,745 in pre-tax profits is reported by Stanley Miller Holdings, building contractor and civil engineer, for the half-year to June 30, 1980. Turnover rose from £8.02m to £7.43m.

The downturn has been brought about by various factors, and the Board says the lack of sales in private house building and the consequent devaluation of this division's work-in-progress has resulted in a substantial loss. The separate civil engineering subsidiary has also suffered a considerable loss.

The Board adds, however, that there is one bright feature in

that the turnover of the company's main activity, building contracting in the UK, has increased and with some improvement in margins. Turnover in Saudi Arabia has continued to fall against near static overheads.

There was an associates' loss of £4,431 against profits of £66,590 last time. After tax down from £31,000 to £3,000 and minorities, attributable profit came out at £6,840 (£49,286).

The interim dividend is unchanged at 0.6p—last year's total was 1.4p from pre-tax profits of £263,465 (£190,082).

Midway loss for Lowland Drapery

On turnover down slightly from £2.6m to £2.37m, Lowland Drapery Holdings, textile warehouse concern, has suffered a pre-tax loss of £112,500 for the half year ended June 30, 1980, compared with a break-even £300 profit last time.

The company has again omitted the interim dividend—last year's final was 1.5p when a £81,805 loss was incurred.

The directors say that a certain amount of reorganisation, including redundancies, took place during the six months, but this has been followed by much more drastic action in recent weeks.

The Brunswick Street property has been completed and is up for sale. Further redundancies have taken place, and apart from two small factory units and the retail outlet in Bechin, the whole group operation is now housed in the Wilson Street-Hutcheson Street property.

The directors say these changes will bring about a considerable reduction in operating costs, but the advantages will be much more evident in 1981.

Trading as a whole continues to be dull, because of the recession, and directors say it is doubtful if turnover for the full year will match that of 1979.

They add, however, that taking into account the reorganisation, there are definite indications that the company will return to profit in 1981.

Loss for the first half was after depreciation of £33,100 (£32,000) and interest amounting to £85,900 (£80,800).

FT Share Information

The following securities have been added to the Share Information Service appearing in the Financial Times:

Baker Electronics (Section: Electricals) (Section: Mariner Petroleum (Oil and Gas))

SPAIN

1980	October 24	Price
High	Low	
252	203	Banco Bilbao
252	217	Banco Central
220	203	Banco Exterior
244	200	Banco Hispano
137	117	Banco Ind. Cas.
175	141	Banco Madrid
284	237	Banco Santander
182	152	Banco Urquijo
261	208	Banco Vizcaya
248	200	Banco Zaragoza
123	75	Degados
73	58	Espanola Zinc
66	53.2	Fecas
40	23.2	Gai. Preciados
71.7	58.7	Hidrola
68.2	57.5	Iberdrola
123	100.7	Petroleos
52	58	Paralimar
118	102	Scopelas
65.5	51.5	Telefonos
70.5	58.2	Union Elect.

MINING NEWS

RTMZ acquiring Empress Nickel

BY KENNETH MARSTON, MINING EDITOR

OFFERS are being made by Rio Tinto Mining (Zimbabwe) for the shares not already held in Empress Nickel Mining and Riotrust (a holder of Empress) because of the troubles being experienced by Empress and the future uncertainties facing the Zimbabwean nickel and copper producer.

The offers are: 80 RTMZ shares for every 100 Empress and 35 RTMZ for every 100 Riotrust. Meanwhile RTMZ is declaring an interim dividend of 9 cents (6p) but expects still to pay a total of 16 cents for the year. Empress 4 cents; and Riotrust 3 cents.

Production at Empress is being hit by mining difficulties and matters are not being helped by lower nickel and copper prices coupled with rising costs.

There is now no hope of paying the forecast total dividend for the year of 25 cents and a total of 16 cents now seems more likely.

New mining methods are to be tried and the life of the mine is not expected to extend beyond the already forecast eight years.

It is presumed that a 16-cent dividend can be maintained for the next seven years.

Meanwhile, RTMZ has had another good quarter thanks to the buoyant prices of gold and emeralds. It brings earnings for the first nine months of the year to £23.98m (£2.65m), or 25.2 cents per share, compared with £22.25m in the same period of last year.

De Beers prospecting Middle Wits ground

DIAMOND prospecting operations are being carried out by De Beers under an agreement with a subsidiary of Middle Witswatersrand (Western Areas) on the farm Venetia in South Africa's Zoutpansberg district.

Middle Wits and Anglo Transvaal Consolidated have respective interests of 68.8 per cent and 21.9 per cent in the subsidiary which holds the rights to precious stones. In the event of a discovery which warrants the opening of a mine De Beers is entitled to acquire these rights.

In such an event the benefits which would accrue to Middle Wits and Anglo-Vaal would depend on many factors, but provision is made for royalties to be paid to them on the profits derived from mining the precious stones. It is stated.

It is added, however, that no meaningful appreciation or assessment of the implications for the companies concerned can be made until further information is available.

MEEKATHARRA'S COAL RESERVES

Australia's Meekatharra Minerals says that assumed coal reserves at its Arckaringa Basin in South Australia are now put at more than 1.5bn tonnes compared with the 700m tonnes reported for the June quarter.

Although core sampling has not been sufficiently extensive to be representative of the whole deposit, analyses have shown the coal to be sub-bituminous.

The company adds that it could be suitable for use in conventional power stations while maceral analysis had shown it to be also suitable for gasification and liquefaction.



Management Development Programs
Graduate School of Business
University of Texas at Austin

is now accepting reservations for its

Twenty-seventh Annual Advanced Management Program

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International managers have been regular participants in this program. This year we seek to expand the number of international managers attending.

The price, \$4990.00 U.S., includes all tuition, materials, lodging and meals for the entire program.

Site of the program is Lakeway World of Tennis Resort near Austin, Texas. Located in the beautiful Texas hill country, Austin is only a short flight from Dallas or Houston. Applications are invited. Brochure available on request.

Contact: Dr. Paul T. Nelson
P.O. Box 7337
Austin, Texas 78712
or phone: Area 512/471-5893

IHI

Ishikawajima-Harima Heavy Industries Co. Ltd.

U.S. \$50,000,000 Guaranteed Floating Rate Notes Due 1985

For the six months
October 27th, 1980 to April 27th, 1981

In accordance with the provisions of the Note, interest is hereby given that the rate of interest has been fixed at 13 1/4 per cent and that the interest payable on the relevant interest payment date, April, 27th, 1981, against Coupon No. 6 will be U.S. \$70,446.

By: Morgan Guaranty Trust Company of New York, London Agent Bank

This Advertisement is issued in compliance with the regulations of the Council of The Stock Exchange.

WILSON PECK LIMITED

(Incorporated under the Companies Act 1907)

SHARE CAPITAL

Authorised	Issued and to be issued	Fully paid
£50,000	£40,000	£40,000
£1,400,000	£1,205,059	£1,205,059
£1,450,000	£1,245,059	£1,245,059

Application has been made to the Council of The Stock Exchange for the whole of the share capital of the Company issued and now to be issued, to be admitted to the Official List.

Particulars of the Company are available in the Extel Statistical Service and copies may be obtained during usual business hours on any weekday (Saturdays and Bank Holidays excepted) up to and including 11th November, 1980, from Berwin Leighton, Adelaide House, London Bridge, London EC4R 9HA.

M. J. H. Nightingale & Co. Limited

27/28 Lovat Lane London EC3R 8EB Telephone 01-621 1235

500's capitalisation	Company	Last Change	Gross price on week (p)	Yield
2,370	Airprange	41	—	5.7
575	Armitage & Rhodes	23	—	6.4
10,693	Bendon Hill	175	+3	8.7
710	County Cars 10% P.F.	71	-3	16.3
7,308	Deborah Ord.	99	—	5.5
4,387	Frank Horsell	117	-1	7.9
8,380	Frederick Parker	85	—	11.0
1,882	George Blair	78	-1	3.1
2,125	Jackson Group	85	—	6.0
16,562	James Burrough	120	-2	7.9
3,111	Robert Jenkins	205	-6	21.3
3,338	Torday	217	—	15.1
2,297	Twinkl Ord.	104	-4	—
2,299	Twinkl, 15% U.S.	82	—	15.0
5,261	Unilever Holdings	38	-2	3.0
12,380	Walter Alexander	98	-1	5.7
5,544	W. S. Yeates	238	-2	12.1

† Accounts not prepared under provisions of SSAP 15.

FINANCE FOR INDUSTRY TERM DEPOSITS

Deposits of £1,000-£50,000 accepted for fixed terms of 3-40 years. Interest paid gross, half-yearly. Rates for deposits received, not later than 31.10.80.

Terms (years) 3 4 5 6 7 8 9 10

Interest % 13 13 13 13 13 13 13 13

Deposits to and further information from The Chief Cashier, Finance for Industry Limited, 81 Waterloo Road, London SE1 8XP (01-928 7822, Ext. 387). Cheques payable to "Bank of England, a/c FFI". FFI is the holding company for ICBS and FCI.

I.G. Index. Our clients speculate, free of tax, in very small to very large amounts, on:

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How far is organised labour responsible for diminishing employment?

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The distinguished panel of speakers will include:

Mr Jim Lester, MP
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Amalgamated Union of Engineering Workers (TASS)

Sir Terence Beckett
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This conference will provide an opportunity to debate and exchange views on the causes of unemployment, the effects on industry and society and to examine the solutions that may be available.

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Please send me full details of your conference 'Employment in the '80s'

Name	_____
Company	_____
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This advertisement complies with the requirements of the Council of The Stock Exchange

October 27, 1980

OCLI

OCLI International Finance N.V.

(Incorporated in the Netherlands Antilles)

U.S.\$15,000,000

9% Convertible Subordinated
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Convertible into Common Stock of and Guaranteed on a Subordinated Basis as to Payment of Principal, Premium (if any) and Interest by

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Issue price 100%, adjusted for interest.

The Debentures are convertible at a price of US \$24 1/2 per share.

The following have agreed to subscribe or procure subscribers for the Debentures:

Orion Bank Limited

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The Debentures constituting the above Issue have been admitted to the Official List by the Council of The Stock Exchange, subject only to the issue of the temporary global Debenture.

Interest is payable semi-annually on May 15 and November 15, the first payment to be made on May 15, 1981.

Full particulars of the Issuer, the Guarantor and the Debentures are available in the statistical services of Exel Statistical Services Limited and may be obtained during business hours up to and including November 10, 1980 from:

Orion Bank Limited,
1 London Wall,
London EC2Y 5JX

Phillips & Drew,
Lee House, London Wall,
London EC2Y 5AP

Companies and Markets

INTERNATIONAL CAPITAL MARKETS

INTERNATIONAL BONDS

Swapping is all the rage

BY FRANCIS GHILLES

LAST WEEK brought little comfort to houses issuing straight dollar bonds: only one new issue was launched for All Nippon Airways and the \$50m issue for Abitibi Price, announced the week before was cancelled. The latter event was attributed to the Canadian company's very poor results more than to the bond market's weakness.

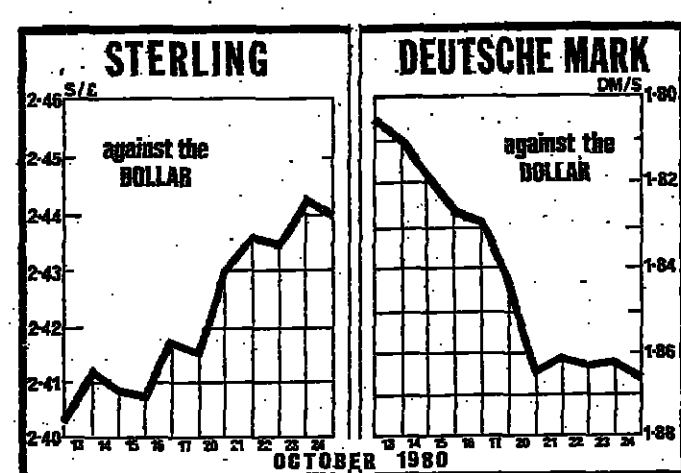
The only straight dollar issue which started trading last week, the \$120m bond for Trallier Train, quickly fell to a 94 per cent discount from its price of 98. By Friday, however, the price had recovered to 95.4-96.4 after what many dealers described as heavy turnover.

Virtually all the straight issues launched in October are still standing at discounts of around 3 points, the one exception being the \$120m bond to 1984 for Federal Steel Development Bank, which is standing at a discount of slightly more than 1 percentage point from its price of par.

As Kidder Peabody's weekly telex to investors points out: "Since October 1 a nominal value of \$745m has been offered and priced in the fixed income sector of the Eurobond market. Unfortunately, the present market value is only \$713.47m, which equates to an average price per bond of 95.77."

Dealers agree that, at these lower levels, bargain hunters could be found who were prepared to buy paper which buyers however are not committing new funds to the market; rather they are swapping. After great new issue binges such as the one, the market indulged in two weeks ago, price anomalies inevitably develop.

Despite such activities, the turnover in the secondary market remains very low; many investors would like to see more clearly in which direction the U.S. economy is heading and who will be that country's next President. Last week the sharper than usual movements in currencies made them even



more cautious. Overall prices dipped by 1 of a point on the week.

Convertible issues continue in favour with no sign of an end to the Indian summer they have been enjoying. A \$70m convertible was launched for Tokyo Corporation last week. The convertible for Moran Energy

was increased by \$10m to \$50m, while the issue for Oclil was accelerated.

The only recent convertible which has not been well received is the \$25m bond for Turbo Resources; some bankers questioned in particular the marketability of this issue, which is only 25 per cent con-

vertible. On Friday it was trading around the 95 level.

Nesbitt, Thomson Ltd., the London subsidiary of the Canadian investment house, ceased its Eurobond market making activities on Thursday and will reorganise itself so as to concentrate on marketing and trading in the areas where it has been active for many years, FRNs, and Eurobonds issues for Canadian borrowers denominated in U.S. and Canadian dollars. This change has come about because Nesbitt feels it does not have sufficient capital to compete with the larger bond houses.

Prices were depressed throughout the week in the foreign D-Mark sector; a weak domestic currency, and the likelihood of much heavier government domestic funding as a result of the slowing of the economy, as well as a heavy new foreign D-Mark calendar, all took their toll. Most seasoned issues shed about 1 1/2 points.

And all this gloom the Midland International issue which was increased by DM 30m to DM 180m was six times oversubscribed: as a result allocations to underwriters were extremely tight. They were much less so when the Japanese Airlines issue was completed, because it was only comfortably subscribed.

The possibility of a fall in Japanese interest rates in the beginning of November made Electricite de France postpone the launching of its \$20bn Samurai bond issue, scheduled for last week until November 7. The coupon on this 12-year issue, arranged by Yamachi Securities, was originally expected to be 8.5 per cent.

CURRENT INTERNATIONAL BOND ISSUES

Borrowers	Amount m	Maturity	Av. life Years	Coupon %	Price	Lead Manager	Offer yield %
U.S. DOLLARS							
11 Banca Mac. Argentina	25	1987	7	6	100	Daiwa (Europe)	6.060
11 Den Norske Creditbank	20	1990	10	10	100	CSFB, Nordic Bank	6.183
11 Turbo Resources	25	1990	10	12 1/2	100	Orion	12.891
11 Soc. Gen. de Banque	100	1987	7	5 1/2	100	CSFB, ESC, Soc. Gen.	5.319
11 Com. Fed. de Elec.	75	1987	7	13	98 1/2	CSFB	13.285
11 Trailer Train	40	1992	12 1/2	13 1/2	99	Manufact. Hanover	13.422
11 Telefonica Nac. Espana	50	1990	10	6	100	BNP, Dillon Read	6.060
11 SOCL Int. Fin. NV	15	1995	15	9	100	Orion, Bateman Eichler	9.203
11 Abitibi Price	50	1990	10	13 1/2	100	Wood Gundy	—
11 Moran Energy Int. NV	50	1995	15	8	100	Smith Barney, Bateman Eichler	8.000
11 Kleinwort Benson Fin. BV	50	1991	9	5 1/2	100	Kleinwort Benson	5.918
11 Toyota Manka Kaisha	20	1996	15	8	100	Nikko Sec. (Europe)	8.000
11 ENEL (g'ated Italy)	180	1987	7	5 1/2	100	Daiwa Securities	5.319
11 Tokyo Corp.	70	1995	15	7 1/2	100	Nomura Europe	7.500
11 All Nippon Airlines	40	1990	8	8 1/2	100	Nomura Europe	8.250
11 BNL NV	100	1986	1	5	100	CSFB	5.063
D-MARKS							
11 Soc. Costa Rica	50	1985	5	10	100	DG Bank	10.000
11 Tatern Autobahn	70	1990	10	8 1/2	100	Say, Hypo, Bay. Landes.	8.462
11 ESCOM (g'ated S.A.)	100	1987	7	9 1/2	100	Dresdner Bank	9.250
11 Eurofima	50	1987	7	8 1/2	100	Bayerische Landesbank	8.250
11 Ind. Bank of Finland	50	1990	10	8 1/2	100	BHF Bank	8.615
11 Asian Dev. Bank	100	1990	10	8 1/2	100	Deutsche Bank	8.750
11 Venezuela	150	1990	8	9 1/2	100	WestLB	n.a.
11 Beneficial Finance NV	25	1985	5	8 1/2	na	—	—
FRENCH FRANCS							
11 Westland-Utrecht	100	1985	5	14	100	CCF	14.000
SWISS FRANCS							
11 Autopistas Aragonese	32	1990	—	6 1/2	99	Soditec	6.573
11 Osterreichische Kbk.	100	1990	—	6 1/2	100	Wirtschafts- und Privatk.	6.125
11 Dome Petroleum	100	1986	—	6 1/2	100	Credit Suisse	6.000
11 Superfin	50	1990	—	6 1/2	100	SSC	6.000
11 City of Vienna	100	1990	—	5 1/2	100	Kreditbank (Suisse)	5.875
11 SINGK Insulators	70	1986	—	5 1/2	100	UBS	5.000
11 Hydrocarbons Bank	75	1984	—	6 1/2	100	UBS	6.250
11 World Bank	100	1990	—	6 1/2	100	Credit Suisse	6.000
GUILDERS							
11 Nationale Nederlande	60	1987	5 1/2	10	99 1/2	ABN	10.051
YEN							
11 Korean Dev. Bank	100n	1990	8	9	99	Nomura Securities	9.468
UNITS OF ACCOUNT							
11 Elsam	20	1987	7	10	100	Kreditbank Ind. Grp.	10.000

* Not yet priced. † Final terms. ** Placement. † Floating rate note. ‡ Minimum. § Convertible. ¶ Registered with U.S. Securities and Exchange Commission. † Purchase Fund. †† Cancelled. Note: Yields are calculated on AIBD basis.

CREDITS

Brazil chases German money

BY PETER MONTAGNON

BRAZIL HAS switched its attention from France to Germany in its attempt to raise financial credits linked to export credit borrowing. German banks are being asked to raise a \$152m syndicated credit to accompany DM 130m of export financing for the Porto Primavera hydro-electric project.

The credit, which is being led by Dresdner Bank, is in two tranches, each of \$76m. One is a 10-year finance with a grace period of five years at a margin of 1 1/2 per cent and the other an eight-year credit with four years' grace and a margin of 1 1/2 per cent.

This latter portion surprised many bankers, since it is 1 per cent below the 1 1/2 margin applied by French banks to a similar fund-raising exercise by Petrobras.

All the banks providing the funds are German, except for Morgan Guaranty, which is participating through its Frankfurt branch to establish a relationship with German suppliers of the project.

Brazil's renewed efforts to raise funds coincides with signs of a slight upturn in volume in the syndicated credit market

as borrowers and lenders hurry to clinch deals before the end of the year.

Besides the Korea Development Bank \$600m credit which was mandated on Friday night, terms on the forthcoming major loan for the National Bank of Yugoslavia should be finalised fairly soon. The borrower is meeting banks today in London to discuss the credit which is expected to be for around \$300m over seven years with a margin of 1 1/2 per cent over Libor.

German banks are also discussing a large credit for Yugoslavia on similar terms. As already reported the borrower sought a loan totalling DM 1.5bn, but the final amount is not fixed as talks continue over the extent of the readiness of the German export insurance agency, Hermes, to guarantee part of the borrowing.

In Morocco the \$150m club deal for Office Cherifien des Phosphates is virtually complete. A large number of banks, including five U.S. institutions, are providing funds for the credit which is being arranged through Banque Marocaine du Commerce Extérieur.

Venezuela has finally begun to clamp down on the volume

of short-term borrowings by public sector agencies, according to Sr. Carlos Zubillaga, the Director of Public Credit. He told the Financial Times, he would present a "comprehensive overall plan" to bring order to the country's foreign borrowing when he meets bankers in London this week.

The plan would hit the raising of new short-term funds rather than rollovers of existing borrowings, Sr. Zubillaga said. Two more Canadian dollar deals are being arranged for borrowers in Spain by Bank of Montreal following the success of its credit for Cia Sevillana de Electricidad. Iberduero is seeking C\$100m and another electric utility, Fenosa, is looking for C\$55m.

Both of the credits carry the same terms as the Sevillana borrowing, which may be raised to as much as C\$100m from C\$60m originally because of oversubscription. The terms provide for a 1 per cent margin over Canadian prime rate for nine years.

The interest shown in these credits by banks and borrowers alike is understood to have prompted Bank of Montreal to look at possibilities for similar

loans in a number of other countries.

The long-awaited \$350m aircraft financing package for the Portuguese airline, TAP, was awarded to Chase Manhattan, National Westminster and Banco Portugues do Atlantico on Friday. Besides Eximbank and ECOD finance, the package includes a \$11m syndicated loan in two tranches.

The first is a \$52.5m credit over 11 years with a margin of 1 per cent for the first four years and 1 1/2 per cent thereafter. The second is a \$82.5m three-year credit with a margin of 1 per cent. Proceeds are to buy five Lockheed TriStar with delivery in 1983/84.

Elsewhere, Manufacturers Hanover is arranging a \$100m credit for the Kingdom of Thailand to finance the purchase of naval patrol boats from Italy and protect offshore gas installations in the Gulf of Siam. The credit carries a margin of 1 per cent over eight years.

Manufacturers Hanover is also arranging a \$130m credit for the Spanish car manufacturer, SEAT. The INT group unit is paying a margin of 1 per cent over U.S. prime rate.

U.S. BONDS

BY PAUL BETTS

Fears of Fed squeeze grow

TRE TWO most widely watched U.S. weekly monetary aggregates, M1-A and M1-B, rose by an insignificant \$366.5m and \$410.9m respectively in the week ended October 15. But this did not prevent a hypersensitive market reacting nervously and sending short-term interest rates leaping further on Friday when the Federal Reserve reported the latest money supply figures.

Although in an academic sense there is widespread consensus that the market is overreacting to the weekly monetary figures, the fact is that Wall Street continues to be worried by the central bank's monetary policy.

The latest economic and monetary data has heightened the market's suspicion that the central bank may squeeze money even further in the wake of what it sees as a stronger than expected strengthening of the economy coupled with little evidence of a slowdown both in the expansion of monetary growth and inflation.

These suspicions were apparently endorsed by the release on Friday of a summary of the September meeting of the Federal Open Market Com-

mittee, the body which reviews the Fed's day to day management of the money market. The minutes of the meeting showed that the Fed had decided to tighten its monetary policies.

Last Tuesday, the Open Market Committee met again. Although its conclusions will not be released until much later, the market has been looking for further clues of possibly tighter Fed policies. But despite widespread expectations that the Fed would be squeezing money further, there has so far been no evidence of this.

In the bond market this week, the spotlight, according to Salomon Brothers, will be on the U.S. Treasury's latest funding announcement which is expected to involve a total package of \$8.25bn to repay some \$5bn in maturing issues and raise \$3.25bn in fresh funds.

U.S. INTEREST RATES (%)

	Oct. 24	Oct. 17	Oct. 10	Oct. 3
Fed funds wkly. ave.	12.58	12.59	12.58	12.59
1-month Treasury Bills	11.10	12.40	12.40	12.40
3-month CD	11.10	12.40	12.40	12.40
20-year Treasury	11.83	12.30	12.30	12.30
Long-term AAA Unit	13.13	12.63	12.63	12.63
Long-term AA Indus.	12.63	12.60	12.60	12.60

Source: Salomon Bros., estimates

FT INTERNATIONAL BOND SERVICE

U.S. DOLLAR	Issued	Bid	Offer	day	week	Yield
STRAIGHTS						
Brit. Oxygen F. 104.90	50	105 1/2	106 1/2	0	+1 1/2	12.41
CECA 11 1/2 85	100	94 1/2	95 1/2	0	-1 1/2	12.54
Chicopee O/S 10 85	300	92 1/2	93 1/2	0	-1 1/2	12.58
Coa. Illinois O/S 9 85	150	87 1/2	88 1/2	0	-1 1/2	12.59
Dynalene 11 1/2 85	100	92 1/2	93 1/2	0	-1 1/2	12.54
Dynalene 11 1/2 85	100	92 1/2	93 1/2	0	-1 1/2	12.54
ENEL 11 1/2 85 (May)	75	92 1/2	93 1/2	0	-1 1/2	12.54
ENEL 11 1/2 85 (Aug.)	75	92 1/2	93 1/2	0	-1 1/2	12.54
ENEL 11 1/2 85 (Nov.)	75	92 1/2	93 1/2	0	-1 1/2	12.54
ENEL 11 1/2 85 (Dec.)	75	92 1/2	93 1/2	0	-1 1/2	12.54
ENEL 11 1/2 85 (Jan.)	75	92 1/2	93 1/2	0	-1 1/2	12.54
ENEL 11 1/2 85 (Feb.)	75	92 1/2	93 1/2	0	-1 1/2	12.54
ENEL 11 1/2 85 (Mar.)	75	92 1/2	93 1/2	0	-1 1/2	12.54
ENEL 11 1/2 85 (Apr.)	75	92 1/2	93 1/2	0	-1 1/2	12.54
ENEL 11 1/2 85 (May)	75	92 1/2	93 1/2	0	-1 1/2	12.54
ENEL 11 1/2 85 (Jun.)	75	92 1/2	93 1/2	0	-1 1/2	12.54
ENEL 11 1/2 85 (Jul.)	75	92 1/2	93 1/2	0	-1 1/2	12.54
ENEL 11 1/2 85 (Aug.)	75	92 1/2	93 1/2	0	-1 1/2	12.54
ENEL 11 1/2 85 (Sep.)	75	92 1/2	93 1/2	0	-1 1/2	12.54
ENEL 11 1/2 85 (Oct.)	75	92 1/2	93 1/2	0	-1 1/2	12.54
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ENEL 11 1/2 85 (Apr.)	75	92 1/2	93 1/2	0	-1 1/2	12.54
ENEL 11 1/2 85 (May)	75	92 1/2	93 1/2	0	-1 1/2	12.54
ENEL 11 1/2 85 (Jun.)	75	92 1/2	93 1/2	0	-1 1/2	12.54
ENEL 11 1/2 85 (Jul.)	75	92 1/2	93 1/2	0	-1 1/2	12.54
ENEL 11 1/2 85 (Aug.)	75	92 1/2	93 1/2	0	-1 1/2	12.54
ENEL 11 1/2 85 (Sep.)	75	92 1/2	93 1/2	0	-1 1/2	12.54
ENEL 11 1/2 85 (Oct.)	75	92 1/2	93 1/2	0	-1 1/2	12.54
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ENEL 11 1/2 85 (Oct.)	75	92 1/2	93 1/2	0	-1 1/2	12.54
ENEL 11 1/2 85 (Nov.)	75	92 1/2	93 1/2	0	-1 1/2	12.54
ENEL 11 1/2 85 (Dec.)	75	92 1/2	93 1/2	0	-1 1/2	12.54
ENEL 11 1/2 85 (Jan.)	75	92 1/2	93 1/2	0	-1 1/2	12.54
ENEL 11 1/2 85 (Feb.)	75	92 1/2	93 1/2	0	-1 1/2	12.54
ENEL 11 1/2 85 (Mar.)	75	92 1/2	93 1/2	0	-1 1/2	12.54

FINANCIAL TIMES SURVEY

Monday October 27, 1980

Northampton

In common with other areas of Britain, Northampton has not escaped the general shake-out of labour. Nevertheless, substantial new manufacturing investment is being committed to the town and there is an upsurge of demand for factory and office accommodation in the area which, in recent years, has attracted more than 50 overseas companies or subsidiaries. ARTHUR SMITH reports.

Further industrial projects planned

NORTHAMPTON, against the gloom of mounting national economic recession, gives cause for optimism. Ironically, expansion of this overgrown East Midlands market town—an idea conceived optimistically by the 1986 Labour Government to help contain the expected upsurge of population and employment in the South-East, that would follow "the white hot technological revolution" and the new dirigiste system of economic planning is now delivering benefits to Mrs. Thatcher's free enterprise Government.

The town has not escaped the general shake-out of labour; traditional industries, such as footwear, are shedding jobs. But new manufacturing investment is being committed, with more than 1.5m sq feet of factories under construction, an upsurge in demand for office accommodation and a new town centre shopping development about to start.

The initial impetus for such rapid expansion might have come from heavy State investment in new roads, schools and

houses, but growth has already gained a momentum of its own. The development corporation, established by a Labour Government, has adapted rapidly to the philosophy of the new Conservative Administration in selling off assets and harnessing private capital for new schemes.

Mr. Leslie Austin-Crowe, the general manager, believes expansion is already close to becoming self-financing. Government funds will be needed in the normal way for social and welfare facilities, such as schools and hospitals, but the development corporation should in the main be able to finance future industrial and commercial developments.

Mr. Austin-Crowe, appointed to the top job only this month after more than 11 years as chief estate surveyor with the task of attracting companies to the town, takes over at a time of some uncertainty. The Government has still to set the completion date to signal the winding down of the development corporations at the "third generation" new towns of Milton Keynes, Peterborough, Northampton, Telford, Central Lancashire and Warrington.

In 1958, when Northampton, a town of 120,000 people some 80 miles north of London, was designated for expansion to help alleviate the problems of housing and overcrowding in the capital, the aim was for a population growth of more than 100,000 in little more than a decade.

Progress has been dramatic. More than 7m sq ft of factories and warehouses have been

completed, along with 1.4m sq ft of offices and 900,000 sq ft of new shops. New highways have cut through the countryside and housing estates established as more than 18,000 jobs have been created.

But by the middle of the 1970s the national economic climate had deteriorated with projections of population growth revised downwards and concern mounting about the drift of jobs and people from the inner city areas. A fundamental review of new towns policy resulted in a decision by Mr. Peter Shore, the Environment Secretary, in September, 1976, to reduce Northampton's target population from 230,000 to 150,000. A vague date of the "mid-1980s" was set for achievement of that objective.

Keeping the figures in proportion

Northampton, currently with 157,000 people, is already only 23,000 short of target. But Mr. Austin-Crowe is quick to move away from the cold statistics and point out that modest as the target might appear in national terms it still represents the creation of a new town the size of Leighton Buzzard.

For the Government with its commitment to the market economy, there must be concern about whether it is necessary to continue public intervention and finance through a development corporation to force more rapid growth in an area already guaranteed success because of its central position, astride the motorway network.

An additional factor for an Administration pledged to remove the distortions caused by regional assistance must be whether Northampton should be given special treatment at a time when there is not only a shortage of mobile industry, but when unassisted areas, such as the West Midlands, are suffering from serious structural unemployment.

Against such arguments Northampton can point to the fact it is now less dependent upon public funds because of the success in disposing of assets. The development

corporation has already agreed terms for the sale of property worth £5.5m and expects to realise a further £5m to £6m in the current financial year. Provided the property market is sustained—and it has been very strong until recent weeks—the sale of land and freeholds coupled with private sector investment should generate sufficient revenue to finance the remaining commercial and industrial development.

Supporters of the continued expansion of new towns such as Northampton point to their importance as generators of

economic growth. Mr. Austin-Crowe says that reports suggest one of the biggest problems for British industry in finding good land and buildings. Northampton can offer the benefits of a mature infrastructure with established shopping, housing and training facilities, plus greenfield factory and office sites.

Northampton, it is argued, provides the right environment for development of growth industries. The Northamptonshire Chamber of Commerce points out that there is already a strong representation of companies with an interest in micro-processor technology. Demand for small industrial units has shown no sign of easing as the recession has gathered pace. Mr. Austin-Crowe reports that all of the 31,000 sq ft units now under construction have already been let. "This is the seedcorn of the future," he insists.

The town has also been successful in attracting foreign investment and claims that more than 50 overseas companies or subsidiaries representing 13 countries are operating in the area. Indeed, the development corporation maintains that 80 per cent of the land it has leased in the past two years has gone to foreign companies.

Among recent arrivals are Pitoro Labelling, a French printing company and Ronlunds Fabrikker, of Denmark, which has established a national fan-belt distribution centre. Festo Pneumatic, the 11th West German company to move to the town since expansion, took just 20 days from inspecting the

premises to moving into the 8,000 sq ft accommodation which will provide a nationwide distribution and after sales service.

Peculiar to Northampton's expansion as an already established town has been the unique partnership arrangement between the Government-appointed development corporation and the local borough council.

Benefits of a growing partnership

From an initial period of suspicion and mistrust, the partnership has blossomed to the point where even many of the original opponents of expansion would be sorry to see the development corporation wound up. Co-operation has been extended to the point of sharing offices and staff and promoting common programmes. With local government reorganisation in 1974, the partnership was broadened to embrace the Northamptonshire County Council.

Government calls for cuts in public spending have undoubtedly caused strains but have not checked the momentum of expansion. The most immediate impact has been on public sector housing where the level of completions is expected to slump from around 800 this year to perhaps 250 within two years. Such a drop represents a serious jolt to the market.

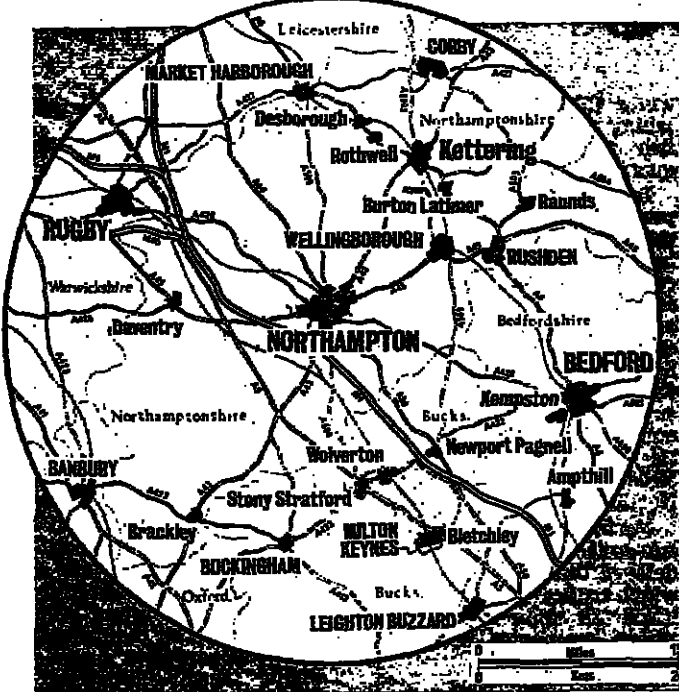
The development corporation is holding talks with developers to stimulate the private sector and provide homes for first-

time buyers. But the sharp decline in its own building programme will automatically impair its ability in future years to offer housing as an attraction to incoming firms. The extent to which that proves a real handicap will depend upon the length and depth of the current recession.

While, on one hand, the development corporation is attracting new companies and creating jobs at the rate of around 2,000 a year, labour is being shed across a wide range of existing industry. Light engineering, which has long since displaced footwear, as the principal industry, has been hit, in particular, by the problems of the vehicle sector and, in general, by the fall in domestic and overseas demand.

There is a recognition that in the difficult economic climate of the 1980s the development corporation may be working less to create job opportunities for the London overspill population and more to ensure continuing employment for workers already in the town. Such a shift in emphasis would serve only to underline the changed circumstances since Northampton was designated for expansion to relieve the pressure of the expected growth of jobs and population in the south east.

But Mr. Austin-Crowe expresses the hope that the Government will recognise the town's importance in pioneering changes and promoting growth industries. He comments: "If you have a winner, you don't stop it to give the others a chance. Make no mistake, Northampton is a winner."



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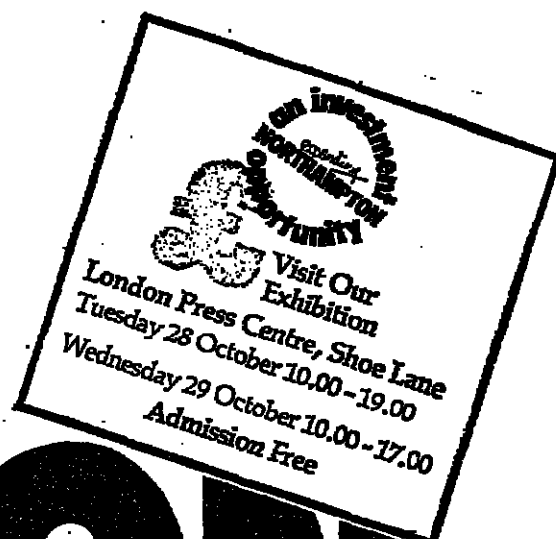
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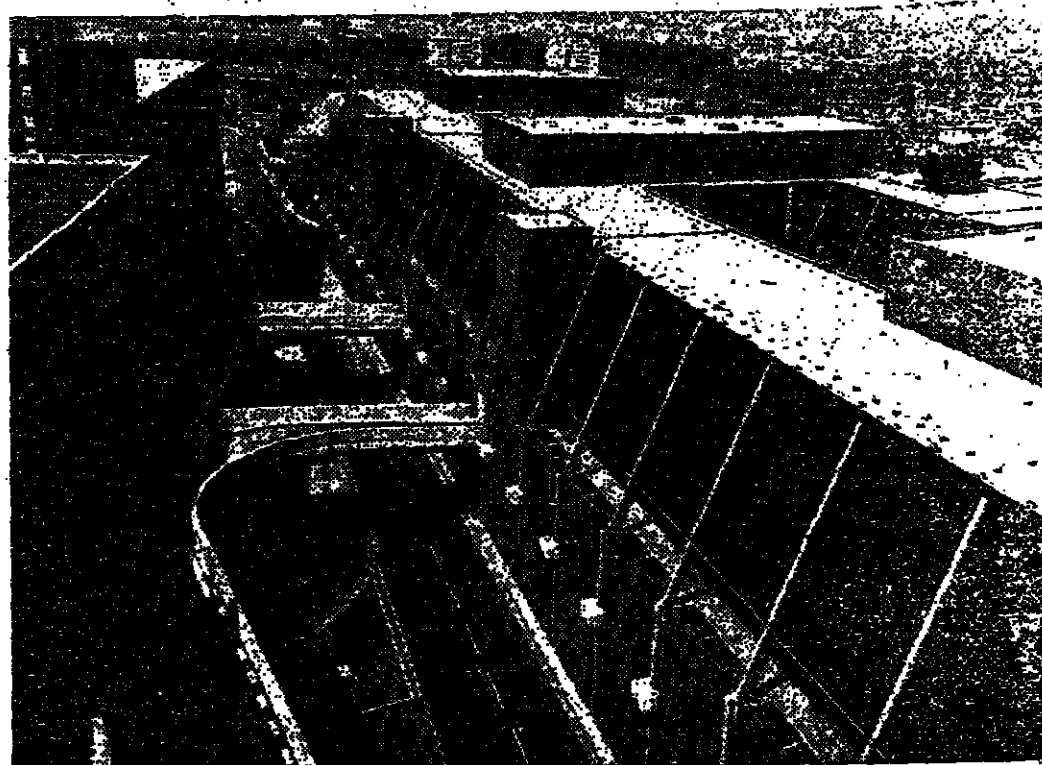
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NORTHAMPTON II



Award-winning rented housing at Southfields, Northampton. This development of 255 homes won a medal in the Department of the Environment's 1980 Awards for Good Design in Housing



Greyfriars House, Northampton, is a new office development of 160,000 sq. ft. above the town's bus station. Shopping and transport facilities are only minutes away

Northampton's geographic advantages appear to have delayed the impact of the recession, in comparison with other areas. The town is particularly well located for new office and warehouse developments.

Upsurge of interest in property market

"NORTHAMPTON is experiencing its own industrial revolution. It is the road port of the 1980s with access to the motorway network—that is the enthusiastic view of Mr. Tony Hewitt, of Wilson and Partners, estate agents, whose Northampton office has already let more than 500,000 sq ft of industrial space this year.

He argues that Northampton is a natural choice for distribution operations, especially since it is located midway between London and Birmingham. More than 50 per cent of British industry and 57 per cent of the population lies within a 100 mile radius.

Recent examples of companies choosing Northampton as the centre for distribution include MFI, the furniture supplier, which has just completed a 600,000 sq ft building on a 31-acre site. Fisher-Price Toys, a member of the Quaker Oats group, has announced plans for a 2.5m head office and distribution centre on a 6.25 acre site,

while UOP Bostrom is undertaking a £9m project to establish a new European headquarters.

Ironically, even during a period of recession Northampton can expect to attract warehouse projects. At such times, companies appraise operations and may choose to rationalise activities in one centre. For example, British Pepper and Spice, which processes and packs herbs and spices for supermarket chains and grocery outlets, has decided to relocate its three existing units at a 52,000 sq ft factory in Northampton.

Northampton's geographic advantages appear to have delayed the impact of recession which nationally began to make itself felt upon most manufacturing companies around last April.

Progress
Mr. Leslie Austin-Crowe, general manager of the development corporation, maintains that new development continued strongly into June and July.

"It is only in recent weeks that the recession has begun to have an effect. We are still getting as many inquiries but it is taking longer for them to be translated into actual commitments," he says. Such delays, caused by companies reassessing new investment projects,

are normal during periods of economic downturn.

More than 1.6m sq ft of industrial accommodation, of which some 270,000 sq ft is speculative, is now under construction. Demand tends to be heaviest for small units of under 2,500 sq ft or for large complexes of over 50,000 sq ft. On average, rents have increased during the past 12 months from around £1.80 a sq ft to £2.10.

While Northampton's attractions to the private sector are apparent, hopes for its development as an important provincial office location have not been fully realised. More than 1.5m sq ft of offices were built during the first decade of expansion but an important stimulus was provided by the demands of local government and the public sector following re-organisations.

From 1977, with the letting of the 60,000 sq ft Riverside House to Rockware, until recently the market was quiet. Ostensibly there was almost 300,000 sq ft of empty offices but this was confined in the main to three large blocks, the largest of which is Greyfriars House with 160,000 sq ft. Greyfriars, which the development corporation still hopes to let to a single tenant, is located above the bus station in the town centre and is expected to be suitable only for a large organi-

sation wishing to move away from London.

But local agents report "a tremendous upsurge" in interest for offices over the last three to four months. Deals include the letting of 9,500 sq ft in a new development at The Parade, on the market square, to four tenants at £3.75 a sq ft. A further 50,000 sq ft has been taken up at Belgrave House, another town centre block that had stood empty for some time.

The changed climate has prompted new schemes including a project by Centros Properties for a 28,700 sq ft building next to the Bareyard offices at Marefair. Asking price for the offices, which will become available next year, is likely to be £5 a sq ft—a considerable jump on present levels and a rental which reflects today's building costs. Plans are also well advanced for a 55,000 sq ft development at Cliftonville where a similar rent will be sought.

Viewpoints

Agents are not clear about the real reason for the sudden upturn in demand, but a popular theory is that companies under pressure first examine production, then distribution and, finally, head office costs. Such reappraisals lead to decisions to rationalise and possibly relocate operations outside London.

On the retail front, Northampton is also scheduled for important town centre projects. More than 830,000 sq ft of retail accommodation has been provided in the first decade of expansion, of which the most distinctive development was the 250,000 sq ft Grosvenor Centre. A further 50,000 sq ft extension which will incorporate a C & A store will shortly be opened.

Penwise Properties, according to Wilson and Partners, hopes to start work later this year on a retail and hotel development on the three-and-a-half acre Notre Dame site, in Abington Street, Northampton's prime shopping area. Negotiations are continuing with the local authority on the detailed plans but it is hoped to provide up to 110,000 sq ft of shops and a 60-bedroom hotel.

Mr. Hewitt insists the demand for shopping at what is a prime site is already evident. The new development would link to existing shops and the Grosvenor Centre to provide the central retail axis. After the Notre Dame development it is difficult to envisage any project of consequence for several years. Agents forecast a "settling down" period while traders adjust to the new accommodation.

Mr. Hewitt maintains that retail units throughout the town are easy to let and that a clear trading pattern has

emerged with Grosvenor the prime location. Gold Street has emerged as an area for discount and specialist traders, while Bridge Street attracts restaurants and professional services, such as estate agents.

Northampton has a clear ascendancy in shopping facilities within the county, even though centres have been provided in recent years at Daventry, Wellingborough, Kettering and Corby. A clear rival to Northampton is Milton Keynes where a 1m sq ft shopping centre opened this year. Traders are watching the position carefully but believe Northampton, as an established town with one of the largest open market squares in Europe, has a sufficiently distinctive character to hold its own. The normal pattern is for people to shop at the largest centre within around 20 to 30 minutes' travelling time. This would mean Milton Keynes attracting some of the people to the south of Northampton. Equally, Leicester, which enjoys a high reputation as a shopping centre, will attract people north of the town.

Within the town centre, retail units are thought to be trading profitably and it would not justify a developer, at least for the next few years, attempting to assemble a site with a view to demolition and rebuilding. The borough council, however, will today hold a special meeting to decide whether to press ahead with plans to build a recreational and cultural complex, likely to cost around £8m.

The Derngate Project, linked to the existing Royal Theatre would provide a 1,500-seat multi-purpose hall suitable for musical performances or spectator sports. The scheme is likely to meet with some opposition from the minority Labour Party, but Mr. Cyril Beaton, the Conservative leader of the council, argues that the cost of the finance for the project could be raised by selling off property, such as the freeholds on industrial estates.

Another project, but this time suggested by the development corporation, is for a leisure and recreation complex which would include a new stadium for Northampton Town Football Club. The aim would be to attract a private developer to finance the scheme as part of an out-of-town shopping centre near to the M1 motorway. The retail content would be considerably smaller than the 220,000 sq ft Weston Favell district centre to the east of Northampton. Two large developments could clearly pull trade from existing shopping areas.

The retail and leisure scheme is scheduled within the next five years as part of the development of the southern district, the next major area for expansion.

Job prospects for school-leavers in Northampton have been particularly disheartening this year. Nevertheless the authorities are providing a quick response to combat this emerging problem.

Anxiety among school-leavers

FOR 17-year-old Michael Marshall and 16-year-old Sheelagh Clancy it is something of a surprise to be back at school. Both left Thomas Becket—a Northampton upper school with around 770 pupils—last June confident they would find a job.

Michael, well-groomed and articulate, explains: "I went for about 20 jobs. For most of them I managed to obtain an interview, but every time it was a case of being told get more qualifications or more experience."

Disappointment, he says, turned to despondency and then determination.

"I could not believe I was so useless. I decided to come back to school and obtain more qualifications for the future." Many of his friends, he reports, are still unemployed. They can earn beer money by working in cafes or pubs.

Sheelagh, a shy, pretty girl, wanted to be a telephonist or work in an office. She gave up and came back to do a course in commerce. About six of her schoolmates, who left at the same time, are still unemployed. "Their mothers won't let them sign on the dole," she says. "They mess around in town."

Even in Northampton, a prosperous town attracting new growth industries and where the post war complaint has been one of labour shortages, there is an emerging problem of youth unemployment. Overall, the level of jobless at 6.4 per cent is still well below the national average of 8.3 per cent.

But Mr. Brian Carr, Principal Careers Officer for Northamptonshire County Council, says: "We would be kidding ourselves to say the speed at which the recession bit did not take us by surprise."

Prospects for school leavers deteriorated rapidly from about April, he maintains. By last month, only 60 per cent of the school leavers had found jobs, compared with 80 per cent at the same time last year.



After a disappointing search for jobs, Sheelagh Clancy, aged 16 (left), and 17-year-old Michael Marshall are back at school. They hope that further qualifications will improve their job prospects.

The official breakdown shows that of the 2,541 leavers, 1,532 had found jobs, 436 were registered unemployed, the position of 355 was unknown, 45 had left the district and 193 were on the Manpower Services Commission Youth Opportunities Programme.

The Northamptonshire Education Committee has responded to the problem by allocating £150,000 to provide additional courses to help the young unemployed.

Mr. Carr expresses confidence in the Manpower Services Commission guarantee that by next Easter every leaver will have

been offered a job or a place under the Youth Opportunities Programme will have been honoured.

"For the last couple of years it has been relatively easy. We are going to be pushing it hard this time," he says.

Mr. David Butlin, fifth form tutor at Thomas Becket and the man responsible for advising leavers about job prospects, maintains that this year has been particularly "disheartening."

Experience suggests that 16-year-old pupils retain their enthusiasm to find a job for perhaps six weeks before apathy

and cynicism begins to emerge and they run the risk of joining the "professional unemployed."

He warns of the further danger that once pupils believe employment prospects are restricted the motivation to achieve at school may be lost.

Mr. Carr takes up the point. He argues that the situation has to be monitored and the message put across to pupils that most of their schoolmates do, in fact, find jobs. He cites the case of Corby, 15 miles away, where the rundown of the steelworks had led to large scale unemployment.

Opportunities

"There, we were able to tell leavers that, regardless of the overall position, three out of four of their schoolmates did find jobs," he says.

Mr. Butlin expresses a fear that the cutback in job opportunities could lead to reduced expectations by pupils. "Some of the talented students, rather than going on to university, seem to be opting for technician apprenticeships. That, in return, reduces prospects for pupils who could normally have expected to pursue such a career." At the end of the day there are not enough jobs to go round and we could be storing up the social problems of the future," he believes.

Thomas Becket is one of the schools pioneering a Foundation course under which fifth form leavers return for a 12-month period during which they aim to pick up five O-levels.

"But at least one day a week is spent pursuing a 'vocational interest.' A pupil interested in a career in, say, banking, the hospital service or industrial management is able to gain work experience in the appropriate environment."

For Northampton, the problem of youth unemployment might have come as a surprise, but there can be no questioning the determination to provide a quick response.

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NORTHAMPTON III

Northampton is the traditional home of the UK footwear industry. This profile examines one long-established company with a record of success in home and overseas markets.

Craftsmen with a worldwide reputation

MR. JOHN CHURCH, managing director of Church and Co., the Northampton-based manufacturer and retailer of quality shoes, is a modest, quietly spoken accountant. But he is emphatic about the reason for the company's success in both home and overseas markets. "We have a history of quality. Shoes have been made here in Northampton by skilled craftsmen for more than a hundred years. If I gave you £10m and said make shoes like Church's, you couldn't. You would not have the labour and the skill."

Open Door

The spirit of the family firm established by the three Church brothers in May 1873 survives. Workers know the "open door" management policy, operated by Mr. John Church and his cousin Ian, who is group chairman, means they can carry any problems straight to the top. The factory is very much part of the St. James community, with sons tending to follow fathers and other members of the family into the trade. "Yes," John Church smiles, "I think you might say we almost have dynastic elements within the factory."

by nearby engineering concerns. But Mr. Church reports a satisfactory inflow of young recruits, particularly in recent months as employment prospects within the town have deteriorated. The St. James factory, where full-time employment has been maintained, is something of an exception in an industry hit by a slump in UK demand and mounting imports. Northampton has not escaped its share of closures and redundancies at a time when nationwide 6,000 jobs in the industry have been lost this year and more than one in ten workers are currently on short-time. Mr. Church points out that more than 50 per cent of the factory's output is exported and it has been possible to offset some of the decline in UK demand by boosting overseas sales. "The philosophy is simple: 'there are discerning people in markets throughout the world who are prepared to pay for a quality product,'" he declares.

Even for Church, while it has avoided the cuts in production capacity implemented by many others within the trade, it is a question of maintaining existing manufacturing rather than looking for expansion. The growth that has taken the group to an annual turnover of around £30m has been achieved on the retail side with the number of shops nearly doubling from 80 to 156 over the past decade. Mr. Church explains: "Quite simply, the profit margins on manufacture over the past 10 years have not been high. Margins on shoe retailing have." The point is underlined by last year's results, which show that UK retailing accounted for 82



Despite the problems facing Britain's footwear industry, some manufacturers—such as Church of Northampton—are winning valuable export orders.

per cent of the group profit before taxation. By contrast, manufacturing and wholesaling, while providing 44 per cent of turnover, returned only 25 per cent of profit.

Manufacturing operations are organised within the Church and Co. (Footwear) subsidiary. In addition to the St. James factory around 150 workers are employed at another Northampton site making women's shoes. Another subsidiary, Joseph Cheaney and Sons, a quality men's footwear company at nearby Desborough, was acquired in 1967 and employs 200.

Expansion

The company long ago realised the value to its high grade image of establishing a presence in retailing, buying a shop on New York's Madison Avenue in 1929. Only this month the neighbouring shop was acquired to make possible a considerable expansion. Another four shops in large cities and a wholesaling business gave the Church group a turnover in the U.S. last year of more than £1.5m. A Canadian-based subsidiary operates 34 shops and a small factory. A Paris shop was opened last year and there are three retail outlets in Belgium. Retail operations in the UK are again geared towards up-market footwear. The biggest chain is A. Jones and Sons, which had 26 shops when it was bought in 1955 but now has 107 outlets after rapid expansion in recent years. Another company, R. P. Ellen, with 15 shops in and around north and east London, was bought two years

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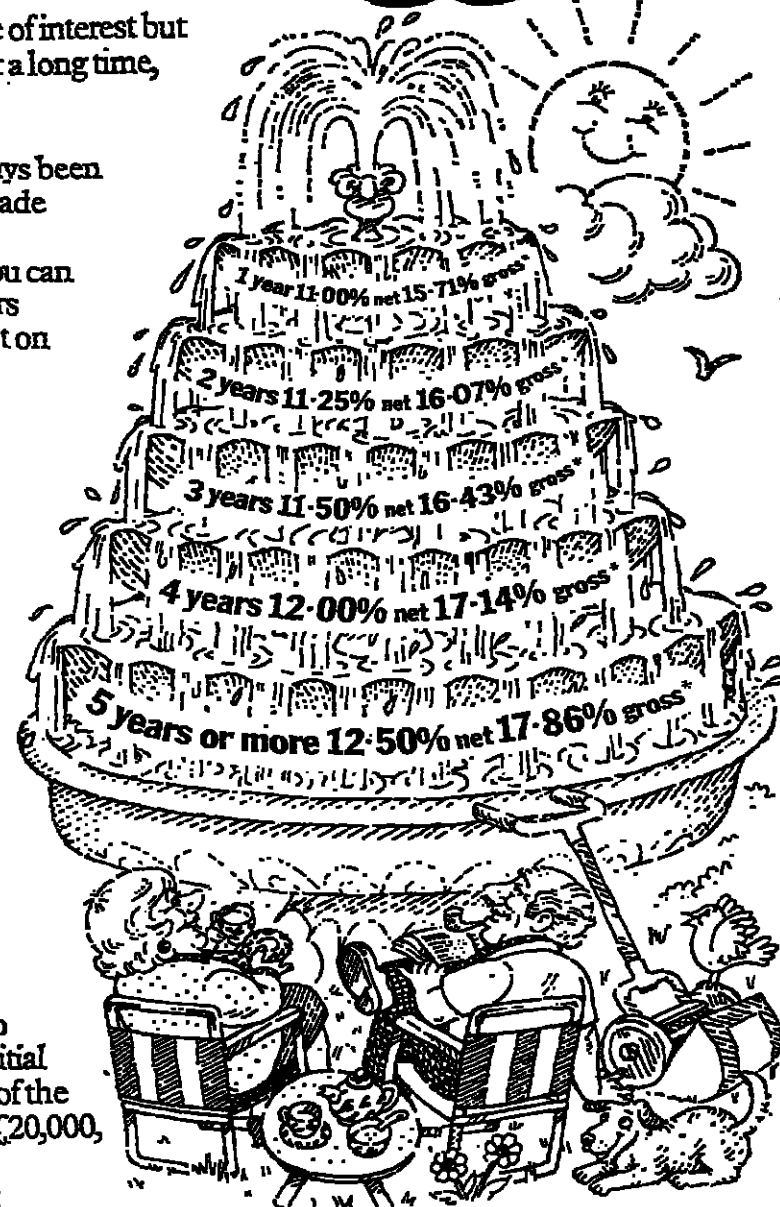
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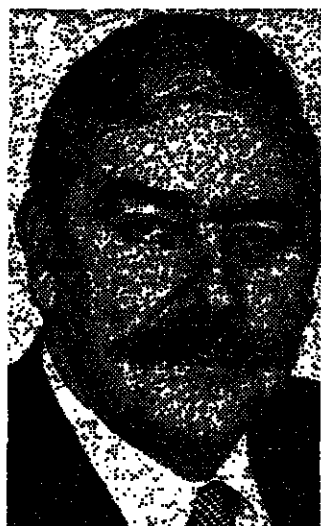
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PROFILES: Leslie Austin-Crowe/Alan Parkhouse

Taking an optimistic view

MR. LESLIE AUSTIN-CROWE, a somewhat flamboyant moustachioed personality prone to hearty laughter, could prove the optimistic character that Northampton needs. He took over this month as general manager of the Development Corporation at a time when the town is emphasising its importance as an engine for economic growth and supporter of free enterprise initiative rather than as an instrument to ease the social problems of the London conurbation. The job of general manager of a development corporation which must work in partnership with the local borough council and the Northamptonshire County Council requires the skills of a diplomat. Mr. Austin-Crowe, 52, follows a healthy but sceptical line, laughingly bemoaning the fact that his political passions have been dissipated by age. His conviviality and willingness to chat about the problems and concerns of the local populace mark a professionalism bred of many years experience of new town



Mr. Leslie Austin-Crowe



Mr. Alan Parkhouse

Town's man of vision

MR. ALAN PARKHOUSE speaks with a slight Lincolnshire accent, presents an argument with the enjoyment of a man who gained a first in jurisprudence at Oxford, but knows Northampton better than most. As Chief Executive and Town Clerk to the Borough Council that he joined in 1949, his desk in an office at the top of one of the blocks now common to the Northampton skyline is clear of papers. He knows the personalities, the nuances of any situation and can always turn up the facts in his efficient filing system.

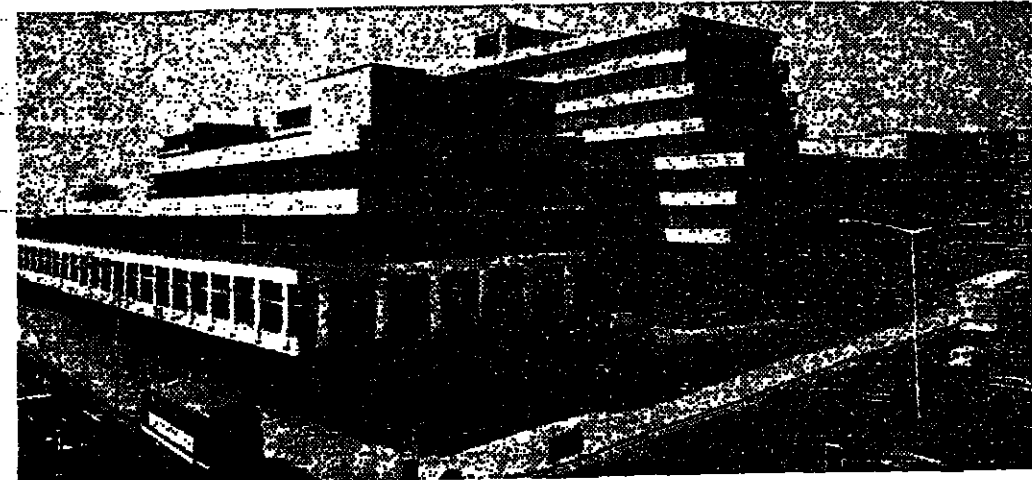
He points to the photograph on one wall of the extensive office which shows Northampton as it was when he joined—one of those provincial one-story, prosperous and full of character but maintaining a market town mentality. On the opposite wall is an aerial view of the new Northampton where modern offices and multi-storey car parks stand stark against the mature buildings of a more relaxed age.

On a third wall is a modern painting—"that reminds me of the pledge I made when the town was first designated for expansion," he says. "I hoped to see, on average, four overhead cranes in operation until the job was finished." The pace has since slackened, but not Mr. Parkhouse's enjoyment of the rapid change that has been effected. From a position where the Conservative-controlled council of 1968 viewed the establishment of a Government-appointed Development Corporation with concern and mistrust, a real spirit of partnership and co-operation has evolved.

Mr. Parkhouse welcomes the fact that the sharing of officers and the speed of growth made it possible for the town to recruit talented engineers and administrators. "On two occasions we have built the bridges first and then changed the course of the river to flow under them."

The Government is currently reviewing its new town policy and the date at which it will disband Northampton's Development Corporation. Consensus view seems to be the mid-1980s.

"That would suit me fine because I reach 65, retirement age, in 1986," Mr. Parkhouse smiles.



ABOVE

Barclaycard was one of the first firms set up in the "new" Northampton in 1972. Barclaycard House, above, a development of 230,000 sq ft, is one of the largest office buildings outside London.

RIGHT

A view, looking north towards Northampton's town centre; in the foreground is Carlsberg's lager brewery



At Northampton
Avon is not just a pretty face.

Avon, the largest cosmetics company in the world, has been growing in Northampton for 21 years and now employs 1,000 people.

Avon products manufactured in Northampton are distributed in 7 European countries. In fact, Northampton is one of Avon's biggest manufacturing centres in Europe and a new £18 million plant is being added.

Now Avon, Northampton never looked so good.

AVON

Kobe Steel forecasts 30% gain in first half

TOKYO—Kobe Steel, Japan's fifth largest steelmaker, estimates that its profit before tax and special items in the first half ended last month will be about ¥30bn (\$143m), or 30.7 per cent more than the ¥22.95bn earned in the same period the previous year, Mr. Kokiichi Takahashi, president of the company, said.

Sales are thought to have reached about ¥580bn (\$2.8bn), up from ¥485bn. The company is expected to report its business results for the half on November 13.

The company attained the first-half performance on the back of strong demand for steel products from customers such as vehicle manufacturers and shipbuilders, Mr. Takahashi commented. The company had made an exchange profit of ¥8bn in the half.

For the full-year, the company expects to achieve profits before tax and special items of ¥50bn, and sales of ¥1,200bn, compared with ¥44.63bn and ¥1,020bn, respectively.

Reuter

Modest rise at NY Times

By Our Financial Staff
NEW YORK TIMES newspaper lifted net earnings by a modest 3 per cent in the third quarter to \$7.99m or 66 cents a share compared with \$7.70m or 65 cents in the same period last year. Sales revenue moved ahead at a higher rate of 9 per cent to \$18.9m, or \$1.77 a share in the first nine months against \$18.2m or \$1.66 a share earlier.

Reuter

Caesar's World chiefs quit over licence ruling

BY DAVID LASCELLES IN NEW YORK

THE CHAIRMAN and vice-chairman of Caesar's World, one of the largest gambling and entertainment companies in the U.S., resigned over the weekend so that their company could qualify for a full licence to operate its new casino in Atlantic City, New Jersey, the only legal gambling centre in the U.S. outside Nevada.

Mr. Clifford Perlman and his brother, Stuart, who founded Caesar's, had been accused of

links with organised crime. New Jersey's Casino Control Commission ruled last week that it would only issue a permanent licence if the two men severed all links with the company and sold their stock between them.

Caesar's had been operating its casino in Atlantic City on a temporary licence which expired last night. Although the commission's conditions were severe, the Atlantic City casino

holds out such a lucrative prospect that the Perlmans were evidently prepared to comply. They may, however, appeal the commission's findings that they lack the "good character, honesty and integrity" to be gaming licensees. Caesar's Atlantic City's third casino in two years, has been grossing \$500,000 a day and contributed nearly half of the company's earnings.

Korean bank to raise \$600m Eurocredit

BY PETER MONTAGNON

THE Korean Development Bank is to raise a \$600m Eurocredit, the first major borrowing in international markets by South Korea since the political unrest this summer.

A mandate to arrange the borrowing was awarded late last Friday to Bankers Trust, which has already begun approaching other international banks about possible participation in the credit. The terms are only slightly more expensive to the borrower than those paid by Korea at the start of this year.

The credit bears a margin of 1 per cent over London interbank rates for eight years. There is a flat management fee of 1 per cent, which will be shared by all the banks in the management group.

Bankers Trust is arranging the loan but, unusually, will not receive any special fee for doing so. In March, the Korea Exchange Bank negotiated a \$500m credit with a margin over interbank rates of 1 per

cent for the first three years and 1 per cent for the remaining five.

Given the severe political unrest which broke out in the country this summer, some bankers had been expecting the new Korean Development Bank credit to show a substantial hardening of terms.

However, the favourable conditions which it has been able to obtain are understood to be dictated by the wish of a number of leading international institutions to demonstrate their continuing support for the country.

A further indication of this is that Bankers Trust will seek to persuade a very large management group of participating banks to join the credit. The mandate had been expected to emerge several weeks ago, but it was delayed because of the death sentence passed by a Korean court on leading opposition dissident Kim Dae-Jung, who is now appealing.

Singapore group in Australian deal

CANBERRA — Australian Government approval has been given for a land purchase on the Gold Coast, the Australian tourist resort, involving Robin Holdings, of Singapore. Robin was refused approval to make the purchase itself, on the grounds of the bid coming from a wholly foreign-owned company.

Mr. John Howard, the Treasurer, said that the bidding company, Robin Holdings, was 50 per cent owned by Robin Holdings and 50 per cent by an Australian resident. It was the intention of the company, he said, to develop the 1,545-hectare property for subsequent sale to Australians over a 10-year to 15-year period.

The development of the property was expected to bring benefits to Australia in the shape of additional housing accommodation and the provision of opportunities for more jobs.

AP-DJ

CURRENCIES, MONEY AND GOLD

A less taxing week than expected

BY COLIN MILLHAM

Conditions were very tight in the London money market last week, but probably not as difficult as expected. The call on 13 per cent Exchequer 1986 contributed \$45m to a severe shortage on Friday, but throughout the week the major problem was payment of VAT and some PAYE which was only offset on Thursday by disbursements to local authorities of £360m rate support grant.

Payment of VAT was a major factor in calculating the shortage on the week, and although the sums involved were considerable it seems possible that the amount was offset by a lower

level of company destocking than anticipated. Recent VAT payments have been swollen by the lack of raw material purchases from companies hard hit by the recession and resorting to large-scale destocking. Although industry in general is still running down stocks some sections of the economy may once again be reducing their VAT payments by buying stock and in an indirect way helping to ease the shortages in the money market.

Funds were hard to find however, and despite the efforts of the authorities to reduce interest rates by offering to buy eligible bank bills outright on Wednes-

day, the market was rather disappointed with this tactic. At times of high yields, and at least the prospect of falling interest rates, the discount houses would prefer to buy back the bills in the future under a repurchase agreement.

In the event the houses sold only a small number of bank bills, preferring to borrow and thus keep rates up.

Another factor behind the high level of interest rates was the demand for Eurosterling which was reflected in the domestic interbank market. Overnight money was very firm,

leading to a bout of round tripping which has hardly stopped since the last banking make-up day. This seems to be the corporate treasurer's way of gaining some relief from the problems of this are that the banks see it as an abuse of the overdraft system and may try to stop the practice of borrowing on overdraft in order to lend into the money market by increasing commitment fees. At the same time it may keep interest rates higher than necessary for a longer period because of the distortion caused to the banking figures.

GOLD

	Oct. 24	Oct. 23
Gold Bullion (fine ounce)		
Close.....	\$631.634	(2358-259.1)
Opening.....	\$634-627	(2356-1.356)
Morning fixing.....	\$628.544	(2354-1)
Afternoon fixing.....	(2356.475)	(2354.50)
Gold Coins		
Kruggerand.....	\$628-454	(2356-4-2071)
1/2 Kruggerand.....	\$310.433	(12135.1-374)
1/4 Kruggerand.....	\$157.172	(238-704)
1/8 Kruggerand.....	\$78.671	(238-89)
1/16 Kruggerand.....	\$39.340	(238-55)
New Sovereign.....	\$126.450	(235-65.4)
King Sovereign.....	\$121.182	(235-66)
Victoria Sovereign.....	\$121.183	(274-75)
French 50.....	\$125.168	(109-172)
50 pesos Mexico.....	\$785.789	(794-798)
100 Cor. Austria.....	\$620.694	(631-638)
1000 Lira.....	\$121.755	(125-130)

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P.O. Box 73, St. Helier, Jersey. 0534 7393
Albany S.Fd. (CI) 108370.07 172.384 1.21

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Daily Del. Oct. 22 0.000311 (12.00% p.a.)

Bank of America International S.A.

Baroque Bruxelles Lambert
2, Rue De la Regence B 1000 Brussels
RentalFord.....US\$38.13 59.95/-0.00 8.85

Overseas Income	\$4.1	46.4	+0.2	13.80
Unifund Trust	\$534.45	75.38	---	2.60
Unifund Trust	\$593.90	94.72	---	10.10

Do. 1st of Main Trd.	43.4	46.6	-0.1	10.70
Do. Main Mutual	47.7	51.3	---	2.10

Bishopsgate Commodity Ser. Ltd.

Bishopsgate Progressive—Ldn. Agents
9, Bishopsgate, EC2N 3AD 01-588 6200
BNAUT Inc. Oct. 23...US\$4.36 4.58 +0.05 0.16

Britannia/Schlesinger
 Britannia Test Manual (C1) 14

Growth Invest.	146.3	49.8	+0.2	3.60
Far East & Int. Fd.	144.3	155.3	+0.5	1.00
Jersey Energy Trst.	314.5	338.2	+12.0	1.50
Amer. Smir. Cos. Fd.	47.5	44.6	-1.2	—
13. 100	22.5	22.0	-0.5	—

Schlesinger International Mgmt. Ltd.
42, La Motte St., St. Helier, Jersey. 0534 73588

Amt. Shipping Co. USS. 1.67 1.67 - 0.00 =
 Int'l. Fd. (Linc.) USS. 12.66 12.66 - 0.00 =
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 Remian Shipley Tst Co. (Jersey) Ltd.

Buttress Equity	US\$525	532	7.66
Buttress Income	2.28	2.34	9.89

Charterhouse Laphet
1 Paternoster Row, EC4 0JF
Tel: 01-248 3999

"Prices at September 30.
Clive Investments (Jersey) Ltd.
 P.O. Box 86, St. Peter Port, Guernsey. 0481 24527

Cornhill Inc. (Guernsey) Ltd.
P.O. Box 157, St. Peter Port, Guernsey
Internl. Man. Ed. 204 222

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Investa _____ RM33.30 33.00/-0.10/ —

Deutscher Investment-Trust
Postfach 2885 Bleibergweg 6-10 6000 Frankfurt
Concentra.....3M7.60 18.778-0.10 —
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Emson & Dudley Tst. Mgt. Jrsy. Ltd.
P.O. Box 73, St. Heller, Jersey. 0534 75933
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E. A. Soering	ESR 102	64.08	
E. A. Equity	ESR 21	61.99	
Hardgate Cn. Fd**	ESR 65	20.50	
			2.02
			2.20

*Next day, Oct. 29. **Next day, Oct. 31.

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STERLING	LIBOR	YTD
Sterling Fixed Interest	£34.03	10.02
	*Prices at Sept. 30.	1225

First Viking Commodity Trusts

7, rue Notre-Dame, Luxembourg
 Ending Oct. 21 — US\$53.84 | — | —
 Frankfurt Trust Investment—GmbH

Free World Fund Ltd.
Waterfield Bldg., Hamilton, Bermuda.
AV Sept 30 US\$145.52 | -

Anchor Gilt Edge	29.71	9.78	4.01	12.99
Anchor Int. Fd	US\$8.07	8.28		1.60
Anchor In. Jy. Tst	36.4	38.9	-0.7	3.08
Century Pac. Fd	US\$53.87			1.02

T. Dollar Fd.	US\$12.70	-0.22	1.18
T. Dir. (Strg.) Fd	£13.21	13.76	1.33
T. Invest. Fd.	US\$16.46	-0.14	0.61
T. Japan Small Cos.	US\$12.08	---	---
Investor (STE) Fd	£10.99	11.62	3.13

Continued on previous page

FINANCE, LAND—Continued

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Zambia holds 12 in swoop on former leaders

BY MICHAEL HOLMAN IN LUSAKA

THE ZAMBIAN authorities have arrested at least 12 prominent citizens in one of the toughest internal security operations since independence in 1964.

Though information remains sparse there is speculation that the Government has moved to forestall a coup attempt. There has been no official explanation of the arrests, which were on Friday, but Mr. Wilfred Phiri, the Minister of Home Affairs, told the State-owned Sunday Times that "mopping-up operations" were continuing.

Among those detained on the 18th anniversary of independence were Mr. Patrick Chisanga, a former Cabinet Secretary; Mr. Edward Shamwari, a prominent lawyer; Mr. Valentine Musakanya, a past Bank of Zambia Governor; and Mr. Elias Chipimo, former High Commissioner in London.

The newspaper also reported that "a number of Zambia Army officers, including a colonel, were also detained." But there

has been no confirmation of this.

The arrests followed a dusk-to-dawn curfew imposed without explanation on most towns on Thursday.

There was a shoot-out 12 days ago between Zambian soldiers and an armed gang several dozen strong on a farm 10 miles south of Lusaka.

It is not known what connection, if any, there is between the shooting and Friday's arrests.

President Kenneth Kaunda, though he has kept several public engagements in the past few days, had not commented last night on these developments.

Lusaka and other towns appear calm, but police and army roadblocks have been mounted on most main roads leading out of the capital.

There have been unconfirmed reports of further arrests in the Copper Belt, but mining officials said that the State-owned mines, responsible for more than 90 per cent export

earnings, were functioning normally.

Most observers and diplomats agree that the events represent Zambia's most serious internal political crisis since 1971, when the late Simon Kapwepwe, Vice-President, resigned to form the United Peoples Party. Within a few months the UPP was banned and Mr. Kapwepwe and other senior party officials were detained.

Mr. Kapwepwe's support came primarily from the powerful Bemba tribe, nearly a third of Zambia's 5.5m population, who are particularly influential on the copperbelt.

When he died last year Mr. Kapwepwe left no obvious successor, but several men arrested on Friday are Bembas.

An equally significant factor may be the reputation of some of those arrested as outspoken pro-Western anti-socialist critics of the Government and of the ruling United National Independence Party, the sole legal political party.

A combination of economic

difficulties, mounting trade union hostility and internal dissent present Dr. Kaunda with a demanding test of his leadership.

Depressed copper prices forced Zambia to turn to the International Monetary Fund in 1978 for a two-year \$15m (\$168m) special drawing rights programme which ended earlier this year. But continuing low copper prices and a fall in the price of cobalt have left the economy in serious difficulties.

Symptoms include sporadic shortages of essential commodities and 18-month arrears in import payments and remittances, totalling over Kwacha 300m (£161m) and rising.

For two years Zambia has imported maize, the staple food, from South Africa.

Farmers estimate that the 1980-81 crop will again fall short of domestic needs, possibly by as much as 250,000 tonnes.

Leading trade unionists, angry about wage restrictions and a high inflation rate, have seldom been so critical of government.

Carter point ahead, says poll

By Our Foreign Staff

A SECOND national public opinion poll has found that President Carter has at least pulled level with Mr. Ronald Reagan, with just 10 days to go before the U.S. Presidential Election.

The "Newsweek" magazine survey, like that of the New York Times last week, actually put Mr. Carter one point ahead, leading Mr. Reagan by 41 to 40 per cent, with Mr. John Anderson, the Independent, slipping further back at 10 per cent.

Preference

The margin is statistically insignificant, though it suggests that Mr. Carter, by capitalising on his contention that Mr. Reagan is the candidate more likely to involve the U.S. in a foreign war, is making headway among the mass of independent voters who are making up their minds at the last moment.

Moreover a national preference poll does not take account of the fact that the election of the President is determined by the electoral college system, whereby whoever carries a state commands all that state's votes in the college.

Given the apparent wider regional spread of Mr. Reagan's support, some experts now believe that Mr. Carter could win a majority of the votes cast but still lose the White House.

Both Mr. Carter and Mr. Reagan were in exclusive territory yesterday for their much-awaited televised debate tomorrow night in Cleveland.

Guarded

Over the weekend, both picked up the endorsements of several major newspapers, though the terms in which they were couched were guarded in the extreme.

The New York Times, for example, in discussing Mr. Carter, caustically observed that "Ronald Reagan is the better salesman. Jimmy Carter keeps dropping his sample case on his own foot but it contains better goods."

The Chicago Tribune was hardly more enthusiastic in its endorsement of Mr. Reagan. Carter questions, Page 2

Weather

UK CLOUDY with outbreaks of rain and sunny intervals. Temperatures near normal.

London, S.E. England, E. Midlands Dry at first with sunny intervals and rain later. Max 13C (55F).

W. Midlands, Channel Islands, S.W. England, Wales, N.W. England Cloudy with outbreaks of rain, may become brighter. Max 14C (57F).

I. of Man, S.W. Scotland, Argyll, N. Ireland Mainly cloudy, outbreaks of rain, becoming brighter. Max 12C (54F).

Central Highlands, N. Scotland, Orkney, Shetland Cloudy with outbreaks of rain. Max 11C (52F).

Outlook: Sunny intervals and showers, becoming cooler.

WORLDWIDE

Y'day	Today	Y'day	Today
Algeria	20 68	Libyan	17 60
Algiers	21 70	Locarno	18 64
Amman	20 62	London	12 52
Athens	23 79	L. Ang.	21 70
Bahrain	30 86	Luxemb.	7 46
Batavia	20 68	Madrid	17 63
Bombay	24 85	Moscow	20 68
Buenos Aires	21 69	N. York	7 45
Calcutta	21 70	Nice	20 68
Cairo	30 86	Nicosia	18 64
Cardiff	21 70	Oslo	2 36
Cebu	21 70	Paris	10 60
Chengdu	21 70	Perth	17 63
Colombo	11 52	Prague	7 45
Copenhagen	16 61	Rangoon	16 61
Dublin	11 52	Reykjavik	4 39
Düsseldorf	11 52	Rhodes	18 64
Edinburgh	11 52	Rome	17 63
Fair	20 68	S. Africa	17 63
Hankow	21 70	Singapore	31 88
Hong Kong	21 70	Stockholm	1 39
Guangzhou	21 70	Strasbourg	11 52
Glasgow	11 52	Sydney	21 70
G'msey	21 70	Taipei	21 70
Hankow	21 70	Tel Aviv	25 77
Hong Kong	21 70	Tokyo	18 64
Innsbruck	11 52	Toronto	8 48
Inverness	11 52	Tunis	18 64
Jakarta	21 70	Valencia	21 70
Jeddah	34 93	Vancouver	16 61
Johannesburg	14 57	Vladivostok	8 48
Le Havre	21 70	Zurich	9 48
L. Pines	23 79	Zurich	9 48

Cloudy, F-Fair, S-Sunny, B-B, R-Rain, S-Snowy, S-Sleet, S-Snow.

THE LEX COLUMN

British Aerospace on the runway

Early in the New Year, the Government will probably offer about half its shares in British Aerospace for sale on the stock market. It is going to make a fat profit. Compensation for the three aerospace companies which were nationalised in 1977 has amounted to roughly £160m, and the Government could get most of that back through the sale of half its shares. No wonder GEC and Vickers, as forced sellers, feel aggrieved.

The necessary paper work should be completed in a few weeks' time, and Kleinwort Benson—the merchant bank handling the sale—will probably want to get Christmas out of the way before pulling the trigger. But with the stock market in a buoyant mood and the Government anxious to get the money in by the end of its financial year, there should be no hanging around thereafter.

Pricing the offer will be very tricky, and not just because there are no precisely comparable companies anywhere in the world. The group has a solid record and consistently makes good profits—more than 8 per cent on sales and well over 20 per cent on assets employed. But it is currently involved in two major projects on the civil aircraft side, the BAe 146 and the Airbus A310, which will have a major impact on its finances over the short term.

British Aerospace's share of the development costs of the 146 could work out very roughly at £250m. Costs so far have been written off in full, and provisions against launching costs generally during the next two or three years could be rather higher than the £250m charged to profits in 1979. The aircraft, which should be in full production by 1983, has yet to win many orders but the group expresses confidence that it will find a profitable niche in the market place.

Meanwhile, the Airbus now

accounts for roughly three-fifths of the workload on the civil side and is unlikely to start producing a proper return for another four or five years.

Fortunately the group currently has a very strong balance sheet—and anyway—three-quarters of its profits come from military work, where the order books are strong and so is the cash flow. So it expects to finance about half its exceptionally high capital needs over the next four or five years with internally generated funds.

Equity in the last balance sheet amounted to £365m, and the numbers could be rather bigger in their restated form. Loan capital is set to rise sharply from its current modest level but is expected to remain comfortably lower than the figure for shareholders' funds and to decline sharply from the mid-1980s.

Although trading profits are rising, the cost of the civil aircraft developments will probably leave attributable earnings little changed in the next year or two. In 1979 the group made £41m after launching costs and a nominal tax charge. Current cost adjustments, which will be included in the prospectus, will take a big bite out of earnings. So given the big spending programme, the group may not want to spend much more than, say, £15m on dividends in the short term.

Among the U.S. aerospace manufacturers, British Aerospace is produced before going on to the ED-27 basis, and many will be considering whether to do so for their next accounts. In fact it probably does not make all that much difference for most UK companies, but it does cut down the scope for juggling figures between the profit and loss account and the balance sheet.

Several differences of detail are evident between ED 27 and the new U.S. draft standard which is currently being debated across the Atlantic. Thus ED 27 calls for a different treatment when the affairs of foreign subsidiaries are deemed to be very closely linked with those of the parent company. Apparently the U.S. draft has run into criticism on some aspects of the way it deals with intra-group trading, and the U.S. and UK versions could yet move closer together in their final forms.

At the same time, British Aerospace has a lot to prove on the civil side. And there is a political risk, even though the Government only has the right to appoint Board directors, and every effort will be made to spread the shares widely among employees. As a very rough guide, half the shares could fetch a bit under £150m.

Currency translation

Finance directors are once again keeping an anxious eye on the sterling exchange rate at the end of the year approaches. Since last January 1 sterling has risen by 10 per cent against the U.S. dollar and by 12½ per cent against a trade-weighted basket of major currencies. This is the tricky background against which the Accounting Standards Committee has launched, over the weekend, its new exposure draft on accounting for foreign currency translation, ED 27.

Companies do not have to wait until the eventual standard is produced before going on to the ED-27 basis, and many will be considering whether to do so for their next accounts. In fact it probably does not make all that much difference for most UK companies, but it does cut down the scope for juggling figures between the profit and loss account and the balance sheet.

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Iran adjourns hostages decision

BY OUR FOREIGN STAFF

THE IRANIAN Parliament adjourned yesterday after three hours of debate without taking any decision of the fate of the U.S. embassy hostages.

The debate is expected to resume today, based on the report of a special parliamentary committee into how the issue might be resolved.

No official announcement was made at the end of yesterday's session and there has been no public indication of the terms on which the report suggests the 52 Americans held for almost a year might be released.

At the start of yesterday's debate a resolution that the session should be closed on security grounds, was quickly carried on a show of hands. A second resolution that all debate on terms for releasing the hostages should be postponed until the end of the Gulf war with Iraq produced several angry speeches condemning "U.S. collusion with Iraq".

Feelings among the deputies were running high after reports

of an Iraqi guided missile attack on the southern city of Dezful in which 100 people are said to have died.

One deputy said the assembly should, in view of the attack, postpone all debate on whether to "release, imprison or execute the hostages." In the vote, a narrow majority was found to be in favour of continuing discussion of the report.

The size of the minority, 87 out of the 185 members present, must be seen as evidence of hardening attitudes in the parliament as the war with Iraq goes into its second month. When the same proposal was made in the first round of the voting, only 15 deputies voted in favour of it.

One deputy said, after yesterday's session, that the complete report of the special committee had been read and that the four conditions set by Iran's revolutionary leader Ayatollah Khomeini were mentioned in it. Another deputy said no demand

for an apology from the U.S. featured in the report.

A proposal by the militant student captors of the hostages that Iran should also demand the withdrawal of all U.S. forces from the Gulf was reported to have been rejected as "unrealistic." No details were forthcoming on the nature of any extra Iranian demands.

Further evidence that the Iranian position is hardening came from Hojatoleslam Hashemi Rafsanjani, speaker of the parliament, who said before the closed session: "In our view some of the hostages are certainly spies."

His comments were echoed by other deputies and gave weight to speculation among Western diplomats in Tehran that Iran may release most but not all of the 52 hostages.

An American official said of this possibility: "It would give us real problems, but as we have nothing in front of us we are not considering any particular plan."

Mr. Walter Mondale, the U.S. Vice-President, said in a television appearance yesterday that there was "nothing on which to base any undue optimism."

Mr. Mondale denied that preparations had been stepped up to receive the hostages at the U.S. military hospital in Wiesbaden, West Germany.

Iran's state radio reported that Dezful had been attacked by Soviet-made Frog-7 guided missiles. This was the second missile attack reported on the city and the nearby major air base. The radio also said there was continued hand-to-hand fighting in Khorramshahr.

Japanese journalists in Tehran said the Iranian authorities had given permission for the evacuation of all 750 Japanese staff working on the joint Iran-Japan petrochemical complex in Bandar Khomeini. The first group of 30 engineers travelled out of Iran via Turkey last Friday.

Iraq warns U.S., Page 2

Inflation hits top managers' pay

BY NICHOLAS LESLIE

WHILE AVERAGE earnings have been increasing at a greater rate than inflation, salaries of top company directors have not. This is the finding of a survey on top management pay in the UK published today by Charterhouse Group, the banking and industrial holding concern.

The survey shows, however, that among the 1,250 companies studied the number of chairmen or highest-paid directors earning more than £75,000 has more than doubled in a year from 14 to 30. Also, more than half of these categories of director now earn above £25,000 a year.

The median increase in earnings for top directors in companies reporting to the end-December, 1979, was 13 per cent and in companies reporting to March, 1980, about 15 per cent. The corresponding movements in the Retail Price Index were 18.4 and 18.8 per cent. Average earnings rose by 19.7 and 20.3 per cent respectively.

The all-industry median figure, however, masks substantial variations between individual companies and between different industries. In companies reporting to March 1980, for example, the most generous 25 per cent paid increases of 22

per cent or more, while the least generous 25 per cent paid companies reporting the 1979 rises of 9 per cent or less.

The survey, formerly produced by Kesser Ullmann, the banking group, which has now been taken over by Charterhouse, highlights some of the considerable variations in salary increases between different industries. For example, among

Chairman or Highest Paid Director earning over £100,000 in the Commercial and Industrial Group

Company	Earnings	Turnover
Adwest	122,269	83
BP	126,385	22,706
Beecham	103,192	1,023
Comet		
Radiovision	101,000	168
Eso		
Petroleum	102,000	3,112
Heron Cpn.	123,000	315
ICI	124,380	5,368
Lee Cooper	126,513	70
Plessey	133,944	751
Racal		
Electronics	103,592	263
Shell		
Transport	218,805	14,590
Wedgwood	115,694	97

calendar year and for the 12 months to March, 1980, it was retail and distribution companies which paid the biggest salary increases—averaging 18 per cent—while electrical and mechanical engineering groups were at the bottom with 10 per cent.

Ironically, perhaps, in the light of the £10m loss it has just announced, ICI accounted for 12 of only 24 employees below Board level reported by six companies to be earning over £50,000 a year. However, it is pointed out that this is unlikely to be the complete picture since, for example, some companies only disclose highest paid employees in the parent company, and not subsidiaries.

The highest level of earnings was more than £100,000 a year. The number had more than doubled to 12 among companies reporting to March, 1980. A number of these directors may be working largely overseas, or rewarded on an international scale to reflect overseas duties, says the survey.

Top Management Remuneration in the UK, produced by Charterhouse Group, published by Munks Publications, Debden Green, Saffron Walden, Essex, price £52.50 cheque with order, £58.50 invoiced price.

Civil servants 'sit' on boards

BY JOHN ELLIOTT, INDUSTRIAL EDITOR

A NEW method of increasing civil servants' understanding of business has been developed by the Department of Industry and the Treasury. Regional staff are likely to be included soon.

"I regard the scheme as a useful way to give civil servants experience of industry without their being detached from their day to day work," says Sir Peter. "I hope to extend the arrangements in a modest way, and would eventually like to have about a dozen civil servants involved at any one time, each being appointed for one or two years."

Civil servants have been seconded on a temporary, full-time basis to the private sector for some years, but it is often difficult for medium-sized companies to find them sufficiently useful work to do.

The idea of involving civil servants in board meetings was developed by Sir Peter, first with Sir Hector Laing, chairman of United Biscuits, and later

from the London headquarters of the Industry Department and the Treasury. Regional staff are likely to be included soon.

Some company chairmen have not joined the scheme because they, or their top managers, sought to exclude civil servants from their boardrooms. Care has been taken to ensure that the civil servants would get on well with their board colleagues and that there would be no conflict of interest between their activities in the boardrooms and in Whitehall.

"I believe the scheme is very worthwhile," says Sir Hector Laing. "We live in too divided a society and we should take whatever steps we can to integrate the thinking and understanding of Government and industry."

Civil servants move into industry, Page 7

with Mr. Derek Birkin, chairman of Tunnel. Sir Peter and Sir Douglas Wast, permanent secretary of the Treasury, made similar agreements with Lord Caldecote, chairman of Delta.

Each of these companies has invited one or more civil servants to attend board meetings of subsidiary businesses, either as observers or as participating non-executive directors.

The schemes were started two years ago by Sir Peter Carey, permanent secretary at the Department of Industry. It has not been publicised, partly because some of the companies did not want attention drawn to the experiment in its early days.

Now Sir Peter is trying to persuade a further three or four companies to join the scheme. The seven civil servants involved so far have been

Continued from Page 1

IATA

"The unrelenting escalation of costs outside airline control poses enormous problems for airline managements as they strive to keep the real price of air travel at current levels—and indeed to bring it even lower in response to government and consumerist pressures."

In real terms, the price of air travel to the public has decreased by as much as 50 per cent in the past 20 years. "However, it is inevitable that the future level of air fares will increasingly be determined, directly and indirectly, by the cost of energy. At best we can expect fuel prices to continue rising in line with inflation and currency fluctuations."

Mr. Hammarskjöld points out that in 1979 the IATA members collectively earned revenues of \$50.6bn (£20.73bn), up 18 per cent.

But their costs went up by more than 23 per cent, to \$50.45bn (£20.67bn) compared with the previous year, leaving a surplus before taxes, interest and other non-operating items of \$150m. After allowing for those items, the net result was a surplus of only \$100m "or only 1 cent for every \$3 of revenue."

These results were produced after carrying record traffic—390m scheduled passengers (roughly equivalent to 70 per cent of the West's total population). The increase in traffic was 7.5 per cent for the year.

Trade

Italian quotas on Japanese cars is not politically possible, the intention is to put forward at today's meeting with Mr. Okita a long list of lesser products from which these restrictions could be removed.

Such a step, it is said, would help strengthen the Japanese Government's case for securing greater restraint of exports of sensitive products to the EEC.

Depending on the outcome of Mr. Okita's meetings with Herr Wilhelm Haferkamp, EEC External Relations Commissioner, and Viscount Etienne Davignon, the Industry Commissioner, a draft directive could be submitted to the Council of Ministers by the Commission next month.

This would give the Commission power to open substantive negotiations.

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